THE IMPACT OF GLOBALISATION TOWARDS BANK PERFORMANCE IN MALAYSIA

BY

MUGESHMANI SUPRAMANIAM

Research Paper Submitted to
School of Economics, Finance and Banking,
Universiti Utara Malaysia,
in Partial Fulfilment of the Requirement for the Master of Sciences (Banking)

Pusat Pengajian Ekonomi, Kewangan dan Perbankan

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PENYELIDIKAN
(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)
MUGESHMANI A/L SUPRAMANIAM (822979)

Calon untuk Ijazah Sarjana
(Candidate for the degree of)
MASTER OF SCIENCE (BANKING)

telah mengemukakan kertas penyelidikan yang bertajuk
(has presented his/her research paper of the following title)

THE IMPACT OF GLOBALISATION TOWARDS BANK PERFORMANCE IN MALAYSIA

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the dissertation).

Nama Penyelia (Name of Supervisor) : **Dr. Logasvathi A/P Murugiah**

Tandatangan (Signature) :

Tarikh (Date) : **12 Disember 2018**

PERMISSION TO USE

In presenting this thesis in fulfilment of the requirement for the postgraduate degree from Universiti Utara Malaysia, I agree that the University Library may take it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this thesis or parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from thesis.

Request for permission to copy or to make other use of materials in this thesis, in whole or in part, should be addressed to:

Dean of School of Economics, Finance & Banking
Universiti Utara Malaysia
06010 UUM Sintok,
Kedah Darul Aman,
Malaysia

ABSTRACT

The purpose of this study is to shed some crucial light on the relationship between globalisation and performance of the banking system in Malaysia. This study uses a range of bank-characteristic determinants (internal factors), macroeconomic determinants (external factors) and three different dimensions of globalisation including economic globalisation, social globalisation and political globalisation to explain local commercial bank performance in Malaysia. This study uses regression analysis based on the secondary data for local commercial banks in Malaysia. The period for this secondary data is 10 years which is from the year 2008 till 2017. This study indicates that there is strong evidence stating both economic and politic globalisation have negatively significant effects on the bank performance in Malaysia. Meanwhile, social globalisation shows an insignificant result on this. As for bank characteristics variables, credit risk shows a negatively significant result towards bank performance in Malaysia while bank size shows a positive and significant result towards bank performance in Malaysia. Sole macroeconomic variable which is GDP does not show any significant result towards the bank performance in Malaysia. Therefore, central bank of Malaysia should give some incentive training for local bankers on how to adopt new supervision and risk management. This will give the local bankers some new knowledge to handle better risk management and directly boost the bank performance. Besides that, banks should develop their credit risk management to overcome any default loans and for better financial performances. Banks in Malaysia also need to expand their businesses as larger banks gives a larger facility which directly boots the bank performance. It is also recommended for Malaysian banks to improve their forecasting of macroeconomic fluctuations in future to achieve greater efficiency levels.

Keyword: Bank, POLS, ROE, Malaysia, KOF Globalisation Index

ABSTRAK

Tujuan kajian ini adalah untuk menyampaikan beberapa cahaya penting mengenai hubungan antara globalisasi dan prestasi sistem perbankan di Malaysia. Kajian ini menggunakan pelbagai penentu ciri-ciri bank (faktor dalaman), penentu makroekonomi (faktor luaran) dan tiga dimensi globalisasi termasuk globalisasi ekonomi, globalisasi sosial dan globalisasi politik untuk menjelaskan prestasi bank komersial tempatan di Malaysia. Kajian ini menggunakan analisis regresi berdasarkan data sekunder untuk bank tempatan di Malaysia. Tempoh untuk data sekunder ini adalah 10 tahun dari tahun 2008 hingga 2017. Kajian ini menunjukkan terdapat bukti kukuh yang menyatakan bahawa globalisasi ekonomi dan politik mempunyai kesan negatif yang signifikan terhadap prestasi bank di Malaysia. Sementara itu, globalisasi sosial menunjukkan hasil yang tidak signifikan dalam hal ini. Bagi pemboleh ubah ciri-ciri bank, risiko kredit menunjukkan kesan negatif terhadap prestasi bank di Malaysia manakala saiz bank menunjukkan hasil yang positif dan signifikan terhadap prestasi bank di Malaysia. Pembolehubah makroekonomi tunggal iaitu KDNK tidak menunjukkan sebarang hasil yang signifikan terhadap prestasi bank di Malaysia. Oleh itu, bank pusat Malaysia perlu memberi latihan insentif kepada bank-bank tempatan tentang cara mengamalkan penyeliaan baru dan pengurusan risiko. Ini akan memberikan pengetahuan baru kepada bank-bank tempatan untuk mengendalikan pengurusan risiko yang lebih baik dan secara langsung meningkatkan prestasi bank. Di samping itu, bank perlu membangunkan pengurusan risiko kreditnya untuk mengatasi sebarang pinjaman lalai untuk meningkatkan prestasi kewangan dengan lebih baik. Bank-bank di Malaysia juga perlu mengembangkan perniagaan mereka kerana bank-bank yang lebih besar memberikan kemudahan yang lebih besar yang secara langsung menaikan prestasi bank. Adalah disyorkan untuk bank-bank di Malaysia untuk meningkatkan ramalan mereka tentang turun naik makroekonomi pada masa akan datang untuk mencapai tahap kecekapan yang lebih tinggi.

Kata Kunci: Bank, POLS, ROE, Malaysia, Index Globalisasi KOF

ACKNOWLEDGEMENT

First and foremost, I would like to thank the Almighty for giving me the gratitude as an obedient religious person. I appreciate all the strength, courage, wonderful people that he has given me throughout this study. His greatness gave me an inspiration and strength to finish this study on time.

I would like to thank my supervisor, Dr. Logasvathi Murugiah, for her patient guidance, inspiration and advice she has provided throughout my time as her student. I found friendship, guidance, discipline and love, and almost everything in just one person. I have been extremely lucky to have a supervisor who cared so much about my work, and who responded to my questions and queries so promptly. Thanks for your effort in guiding me, motivating me and most importantly for your care and patient in teaching us the baby step on using SPSS software

Special love and thanks for my parents who nonstop giving me encouragement which boost me up throughout this study. I would like to thank my father Mr. Supramaniam Tannimalai for giving me support morally and financially. I would like to thank my mother Ms. Sumathi Suppiah for her love and continuous support. Not to forget, I would like to express my gratitude to my siblings Mr. Jagadeesen Supramaniam and Miss Lokita Karthyayini for the motivations and moral support for me to pursue my master's study. Without my family support, I would be nothing.

Not to forget, I would like to thank all my lecturers who uses their time and effort to train, guide and thought me well to this far. I will not forget their guidance and advises that they have given to me. Without them, I am nothing.

Completing this work would have been all the more difficult were it not for the support and friendship given by my friends. Special thanks to Mr. Dharvintharan Konasilan and

Miss Yugindri Baskaran for being with me all the time. Their moral support and advices is one of the reason for me to get back up when I am stressed and down.

Last but not least, I would like to thank all my beloved university (UUM) for giving me this golden opportunity to carry out this research in a very conducive environment. Thank you.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

BACKGROUND OF THE STUDY

1.0 Introduction

Globalisation is one of the famous and important word that striking the world today. In 1985, the term of "globalisation" was first utilized by Theodore Levitt. Theodore describes the vest changes that had taken places in the global economy over last a few decades. The fast and pervasive economic and financial changes had occurred in consumption, production and investment all around the world. Globalisation is the procedure by which the world is ending up progressively interconnected because of greatly expanded trade and cultural exchange. Globalisation has expanded the generation of products and ventures. The greatest organizations are not any more national firms yet multinational corporations with subsidiaries in numerous nations. Early thoughts of globalisation were that when the world large disintegrated economic units are integrated together to form a more closed circuit economic unit, the gains can be derived from speed, closeness and unity of regions (Ekong, 2016).

Globalisations can create wealth to the nation and it unquestionably can convey the economy of the nation to the highest stage. Moreover, globalisation brings people around the world nearer together and offers us many decisions to make. It also empowers us to be more productively, successfully and it permits us to improve our lives in a better quality. However, if globalisation can create wealth, for beyond any doubt it can take it back. Without a doubt, not every person is excited about globalisation since it also conveys the negatives effect to the nation. Globalisation gives rich and big outside business interest to mix up with the local culture and if possible, they tend to override the local traditions and without a doubt it will give a bad impact towards the way of life. Both social and politics globalisation has given a huge impact both in negative and positive way in local traditions and the way of life of a company, firms, banks and many more. Most developing country felt that the nation are in danger due to globalisation, but it is also a vital thing to understand that globalisation might also give the chances for developing country to boost the economy and creating more jobs.

According to globalisation index developed by (Dreher, 2006) through KOF globalisation index, there are three main globalisation variables. They are economic globalisation, social globalisation and politic globalisation. Economic globalisation is the expanding economic interdependence of national economies over the world through a fast increment in cross-border development of merchandise, services, innovation, and capital. Meanwhile, social globalisation is based to the transmission of thoughts, implications, and qualities around the globe that broaden and heighten the social relations. This process is set apart by the normal consumption of societies that have been diffused by the internet, popular culture media, and universal travel. Besides, political globalisation refers to the development of the overall political framework, both in size and complexity. That framework incorporates national governments, their governmental and intergovernmental associations as well as government-independent components of worldwide common society, for example, international non-legislative associations and social development associations.

Globalisation has transform Malaysian economy from an agrarian based economy to an industrialized economy and now it is endeavouring to form into a knowledge economy. Most of the mega projects in Malaysia had made Malaysia to go global in one way or another (Phua & Soo, 2004). With a specific goal to accomplish the above objectives, Malaysia needs to take more open policies, economically as well as socially and politically. Presently, Malaysian youth have more access to the alternative media, and are more open on the positive or negative impacts from around the globe (Phua & Soo, 2004). The New Economic Policy (NEP) in the year 1990 is replaced to a better and revised plan known as National Developed Plan. The current Prime Minister which was also the forth Prime Minister during that time had come up with a great plan which is the Vision 2020. The announcement of Vision 2020 is to make the country to face forward to globalisation in order to pull up the development of Malaysia. Therefore, there has been an opening up of the Malaysian market, education system, and the opening on the migration on an individual that went in and out of Malaysia. This shows that the globalisation era in Malaysia had begun in a good way. Nonetheless, after the Asian economic crisis in 1997, Malaysia is presently worried about opening up its economy and other policies. However, Malaysia did not stop to accomplish the above goals, Malaysian government still adopt and received more open strategy in a couple of key regions compared to before, therefore it still brings some globalising background.

The effect of globalisation on national's security in Malaysia is complex. Besides, it could be influencing the political, economic and social conditions inside the states. The effect on globalisation on the national security condition isn't completely positive. This is one of the difficulties to the world and huge numbers of them represent to long term threat which have traditionally fallen outside the foreign policy.

However, the effect of globalisation isn't really negative. The powers of globalisation have achieved a good stability in the district. For instance, Johor-Riau-Singapore triangle in Southeast Asia, these nations have decreased the conflicts among them and they coordinate between every one of them. For the cultural aspect, globalisation means the changes in term of the way of living among people in the community. The process of culture globalisation in banking sector would not be smooth without the help of an advanced communication technologies. Besides that, globalisation promotes bank marketing through internet and advancements of bank globally which banks able to expand their branches throughout the world.

According to Horen & Claessens (2009), banking sector has progressively become more globalised through developments in technology of communication, deregulation and additional economic integration. Besides that, banks can get a great advantage by expanding the economics and products in large economy scale and at the same time it will it will reduce their risk exposure associated with beings in one market (Sufian & Kamarudin, 2016).

It is very important for banks to come out with many new products in the globalisation era to maintain the performance of the bank in this competitive market. The mechanics of banking operations tasks turn out to be vital for this market. These bank customers are principally from developed nations and value the speed, exactness and effectiveness of the financial transactions. According to Kanyak (1986), under the influence of heavy generic as well as brand competition both from domestic as well as foreign financial institutions, to preserve their market share and feasibility global banks have had to differentiate their product or service contributions as well as they have come in into different market segments.

Banking system in developing business sector nations have encountered a critical change due to the globalisation, financial progression, openness to international capital flows and technological as well as financial advancement (Detragiache & Gupta, 2004). A closer look at the Malaysian banking system is necessary to understand the banking system of this country.

Malaysian banking system is different from other emerging economies, as Malaysian banks are operating in a dual banking system, whereby the conventional banks are operating side by side with the Islamic banks. At the onset of the 1997 Asian financial crisis, the banking industry, non-banking financial intermediaries and financial markets comprised the Malaysian financial industry. The central bank, Central Bank of Malaysia, constitutes the apex of the banking industry, comprising commercial banks, merchant banks, finance companies, discount houses, foreign bank representative offices and offshore banks in the International Offshore Financial Centre in Labuan as well as Islamic banks.

The Malaysian government is a consistent supporter that having proficient financial system framework is the way to stimulate savings, investments and economy growth in the nation. The nation has made real commitments in the current improvements, developments, regulations and major contribution of commercial banking sector and finance world. Foreign commercial banks held over 90 percent of the share of the banking market in 1957, when Malaysia became independent, but by 1997 controlled only 16.7 percent of banking assets (Detragiache & Gupta, 2004).The progressive failure of foreign banks was the result of a deliberate government policy of evolving the domestic financial sector, under which foreign banks have been banned to open new branches since 1971 and the last license to a foreign institution approved in 1973. The market share of foreign banks was relatively stable in the 1990s until the crisis (Detragiache & Gupta, 2004).

1.1 Problem Statement

Research has demonstrated that banking system's soundness and stability altogether put it in a superior stead to pick up from business. Such a steady state is accepted to protect the banking system against trouble, contagious and moral hazard. It decides the proficiency and efficiency of the banking system.

There are many issues that been argued by other authors such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016), Nguyen & Nguyen (2018) on the design of the globalisation matters for the performance of the domestic commercial banks. According to Horen & Claessens (2009) there are many reason for bank become globalised which is through technology of communication, deregulation and more economic integration. Besides that, due to globalisation, the activities in banking has been attributed to institutional specific characteristics and better profit opportunity (Focarelli & Pozzolo, 2005).

Conceptually, globalisation in banking sectors happens when the foreign banks penetrate into the domestic market. Foreign banks might influence the bank performance in positive ways or in harmful ways. Previous study such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Sufian & Kamarudin (2016), Nguyen & Nguyen (2018) tends to agree that globalisation is giving an advantage to bank performance especially in the return on assets (ROA) and return on equity (ROE). However, Boot(1999) and Ghosh (2016) had argued that there is negative side of globalisation in banking sector.

According to Boot(1999), governments may wish to have largest institutions in their nations domestically owned. So, it is also being argued that globalisation by bringing up foreign bank in the concentrated market might implies loss to domestic banks as it brings losses of a significant share to the advantages of foreign investors. Foreign banks also might give a high competition to domestic banks when it come into globalisation. This might reduce the banks performance domestically.

Besides that, regarding potential damages, foreign banks are regularly blamed for stimulating outflow of capital from the host country. Hence, when a country in a hard time, foreign banks might facilitate economic crisis, financial stability due to the outflow of capital from the host country (Ghosh, 2016). This will indirectly affect the bank performance of a country.

It come to an understanding that regulation and a good supervision is vital for both domestic and foreign banks. However, deregulations might happen due to the impact of globalisation. According to Ghosh (2016), when the restriction of foreign banks in reduces, it may imply border efforts to deregulate the domestic banking sector in a sector. This might create a risky environment and indirectly affects the banking performance overall in a country (Cetorelli & Goldberg, 2012).

However, some author such as Tschoegl (2004) counter the arguments above. During economy emergency, domestic depositors frequently pull back their deposits from foreign banks in which they have lost certainty and redeposit their assets in less risky banks, such as domestic ones. During emergency, the branches of domestic banks in a country will directly attract the attention of the depositors especially the banks with a great and better regulation system (Tschoegl, 2004).

Besides that, globalisation might give a stable credit supply when the parents banks of the foreign countries back up the host's country banking industry during crisis. In addition, foreign banks might increase the bank performance by bringing up advance technologies, better supervision regulation and a good risk management system through globalisation. This will eventually raise the competition level of host nation's banking industry. Detragiache, Tressel, & Gupta (2008) mentions that through globalisation, foreign bank can be considered safer than domestic back because they have parent banks to back them up, especially during financial crisis.

In addition, economic integration and profit opportunity are driving forces of bank globalisation. Nevertheless, economic integration and profit opportunity might be different depending on the home countries of the banks due to the politic, economy and social factors of the country and the bank culture itself. Thus, this study also builds an empirical model to measure the performance of the bank based on the internal factor which includes the bank-specific and also measures the external factors which includes the macroeconomic factors.

Based on the contrasting arguments on the positives and negatives sides of globalisation towards bank performance, a research and study on the impact of globalisation on the bank performance is still lacking. Thus, a good investigation of this topic and area gives a stable and good outcoming of the impact of globalisation towards the bank performance.

1.2 Research Objectives

Specifically, the objectives of this study are:

1. To examine the bank specific characteristic that may influence the Malaysian bank performance.
2. To analyse the effect of macroeconomic conditions towards the performance of Malaysian banking sector.
3. To investigate the relationship of globalisation on the performance of Malaysian banking sector.

1.3 Research Questions

The following research questions are raised:

1. Which bank-specific characteristics influence the performance of the Malaysian banking sector?
2. Which macroeconomic conditions give an impact to the Malaysian bank performance?
3. To what extent does the globalisation give an impact to Malaysian banks performance?

1.4 Significant of the Study

1.4.1 Academic

For continues presence and progress in performance, banks need to constantly meet the required standard in the global setting. One of the importance of this study is that it fills in as a perusing research record that gives a superior understanding of bank-worldwide transfer relationship. This investigation will give an immense value to the students of business, finance and economics since it will remain a source of information and data for them and other people who may wish to do additionally examines on future research issues.

1.4.2 Industry

Globalisation is the key trend of the business today. Globalisation gives a positive or negatives impact one country, industry or individuals. The investigation of the globalisation helps the banking industry to decide on their future plans on their development and performance. For instance, globalisations bring a competition for domestic banks with foreign banks. However, they also need to be aware that globalisation might also bring new technologies, better supervision and regulations and better performance. Technologies with a good system and regulations might boost up the bank performance as the labour cost will be cut down. Besides that, the services will be more efficient and less time consuming. Thus, the results of this paper might contribute an idea to banking industry on the future plans.

1.4.3 Policy maker

It is understandable that the world if moving towards globalisation in a fast track. This study proves that globalisation plays a vital role in a country, bank industry and to a individuals. Most of the banks are closing the subsidiaries due to the advancement of technologies. Globalisation bring a great advancement towards technologies. Most of the bank services are in tip of our fingers. However, some countries are lack of experts in handling the technologies. We also aware that, the advancement of globalisation also gives the birth of hackers globally. Therefore, with the result of the study, government can come up with a policy that promote high education which mainly focused on science and technologies. This will ensure future individuals ready to face the global competition.

1.5 Scope of the Study

The current research focus on the commercial banks in Malaysia. This paper also been narrow down to only cover up the domestic commercial banks in Malaysia which consists of 8 banks. The period used for this research is 10 years which is from 2008 – 2017 as this period is the best time frame to defines the latest globalisation era. The independent variables are divided into three. They are globalisation, bank characteristics (internal factors) and macroeconomic variables (external factors). The concept of globalisation is very wide. However, this study had only cover up on political globalisation, economic globalisation and social globalisation. As for bank characteristic, this study investigated on the bank size and credit risk. For macroeconomic variable, this study used gross domestic product (GDP). In regard to banks performance, this study investigated using only one measurement which is the Return on Equity (ROE) of domestic commercial banks in Malaysia. Data for Globalisation is collected from KOF globalisation index which introduced by Dreher (2006). The data of bank characteristic is obtained from the annual report of Malaysian banks and data stream. As for the data of macroeconomic variable is collected from the world bank data and IMF report.

1.6 Concluding Remarks

In short, this chapter shows the background of the globalisation. The effects of globalisation are explained based previous history, economically, through banking industry and finally based on Malaysian country. This study also discussed on the issues that involved in globalisation in the problem statement section. Three research objectives and questions in developed based on the issue in the problem statement. This chapter also shows the positive contribution of the study for academician, industry players and policy makers. The type of data and samples is explained under scope of studies.

1.7 Organisation of the Study

This study consists of five main chapters. In this following chapter, I have organised an overview of globalisation and Malaysian banking sector, problem statement, research objectives, research questions, significant of the studies, scope of the study and organisation of the study. Next, namely chapter 2 consist of literature review. Literature review is divided into 2 parts which is theory and past studies. The theory of globalisation is explained in the first part and followed by the discussion and review of the previous study which is the empirical study. In chapter 3, research methodology is being discussed where it consists of organised the data description, variables, theoretical framework, hypothesis statement and empirical method. Section 4 implies the result and discussions. This paper ends up section 5 which consists of a conclusion and also policy implications.

CHAPTER 2

LITERATURE REVIEW

2.0 Theory

2.0.1 Eclectic Theory

The eclectic theory is a study on foreign direct investment (FDI) which developed by Dunning (1977). This theory has demonstrated a to a great degree productive mindset about multinational enterprises (MNEs) and has inspired a lot of studies and applied work in banking, economics and international business. The eclectic paradigm is also called as OLI – Model or OLI – Framework. "OLI" is the combination for Ownership, Location, and Internalization, OLI are the three potential advantages of favourable position that may underlie a company or bank's choice to become international. Ownership advantages is intended to address the subject and question of why a few firms yet not others travel to another country and recommend that a successful MNE and banks has some firm-specific advantages which enable it to conquer the operating costs in foreign nation. While, location advantage is intended to address the question of where a MNE plans to locate. Finally, international advantages impact on how a firm operate in foreign nation such as monitoring costs.

The eclectic theory is directly connected to this study in finding the effects of globalisation towards Malaysian commercial bank's performance. This theory indicates that there are three important factors to look up before internationalisation or globalisation happens. Based on the theory, it shows several advantages for a country in expending their firms and banks. So basically, this theory shows that there is huge advantage for the foreign banks follows the three criteria well. Based on the theory above, this study actually intended to find the impact of foreign bank's advantages in domestic country towards the performance of local commercial banks. In the ownership advantage factors, ownership tend to have competitive advantage in engaging themselves in foreign direct investment. Thus, this study uses this theory to see whether the competitive advantage in foreign banks will affects the local commercial banks. Next factor is the location advantages, this factor tends to take the advantages of domestic country location to exploit the resources and adding activities to gain competitive advantage. This study tends to investigate whether the competitive advantage for foreign banks through location advantage affects the local commercial banks in domestic country. Finally, the internalisation advantage gives a good impact towards the foreign banks where they can maintain the performances internally with a lower cost by operating from a different location. Cost effective will give foreign banks a good competitive advantage and this study investigate whether the impact of international advantages in foreign banks will affect the local commercial banks performance. In summary, eclectic theory shows the advantages of globalisation for firms and banks if it follows and have three main advantages which is the ownership advantages, location advantages and the international advantages. Therefore, this theory is very beneficial in understanding the advantages of foreign banks entering the domestic country through globalisation which directly affects the local commercial banks which is accordance to the objective of this study.

2.1 Past Studies

2.1.1 Dependent Variable

2.1.1.1 Bank Performance – Return on Equity (ROE)

There are a few proportions that are regularly used to measure the performance of banks, for example, return on assets (ROA), return on equity (ROE), profit margin (BTP/TA), interest margin (NIM), return on deposits (ROD), and net profit expense ratio (PER) (Burhonov, 2006). In accordance with the banking literature that has tended to the determinants of banks performance; this study utilizes and choose the best among all the bank performance variable which deemed appropriate to be applied to commercial banks in Malaysia. The two regularly utilized for bank performance are the return of assets (ROA) and the Return on Equity (ROE) (Molyneux & Iqbal, 2005).

ROA is utilized because it demonstrates the profit earned per unit of assets and mirrors the management's ability to use the banks financial and real investment resources to create profits, hence it might be viewed as the best measure of profitability. Return on assets is preferred to other profit measures because it shows the efficiency of the banks in regards on banking operations the productivity of manages an account regarding keeping money activities. At last, since the arrival on banks' deposits is dependent upon the results of the projects that the banks finance, the return on assets mirrors the management's capacity to produce positive returns on deposits (Al Manaseer, Al-Dahiyat, Sartawi, & Al-Hindawi , 2012). Many previous study used ROA to measure bank performance such as Said & Tumin (2011); Smaoui & Salah (2009); Sufian & Habibullah (2012); Ghosh, (2016); Sufian & Kamarudin (2016); Nguyen & Nguyen,(2018) and many more.

According to Hassan & Bashir (2003), ROE is being used as a proxy for bank performance because it able to determine the efficiency of bank management by using shareholder's investment. There is some reason why ROE is used to measure the bank performance. According to Gâdoiu (2013), ROE gives information to shareholders as it measures performance and as a source in determining directors' compensation. This may urge shareholders to put investments into projects with a higher expected profit for equity even though it might be highly risk. There are many studies that uses ROE as dependent variable to measure bank performance such as Dietrich & Wanzenried, (2011); Said & Tumin, (2011); Smaoui & Salah (2009); Ramadan, Kilani, & Kaddumi (2011); Kanwal & Nadeem (2013) and many more.

As a summary, it is agreeable that there are many possible proxies to measure bank performance. Besides that, according to Rasiah, (2010), one of the advantages of using profitability ratio is that they are inflation invariant. This means that the ratios are not influenced by the changes in price level. ROE is a significant measure when contrasting the profitability of one bank with another or with the commercial banking system as a whole. (Rasiah, 2010). Based on the literature review and arguments above, ROA can be consider as a good proxy to measure the bank performance. However, ROE is better and can be considered as a best proxy to measure the bank performance.

2.1.2 Independent Variables

2.1.2.1 Economic Globalisation (EG) and Bank Performance

This study uses economy globalisation (EG) as one of the proxy for globalisation. This study also indicates that EG might have relationship with bank performance. There are a few investigations has been done using economic globalisation. This economic globalisation proxy is based on the KOF globalisation index which is developed by

Dreher (2006). Since the index is established in the year 2007 and the index is updated time to time, thus the previous study of this study is very few and it might give a good reason for us to conduct this study in Malaysia

Sufian & Habibullah, (2012) finds that there a significant and positively affects towards the bank performance. This study is conducted in China in the year 2012. They believed that economic globalisation gives a huge profitability towards the banks in China as it is statistically significant at 1% level. There are few reasons on why it shows positively significant results. Sufian & Habibullah, (2012) believed that a conceivable reason could be because of the way that capital account liberalisation is normally joined by liberalisation of financial services sector which brings a great prominent rivalry, destroys monopolistic profits, and it indirectly driving down franchise value of local financial institutions. Besides that, (Mayer-Schönberger & Hurley, 2000), recommend that worldwide communication systems and network have fundamentally decreased cross-border transaction costs and promotes economic integration and international trade. Besides that, Sufian & Kamarudin, (2016) finds that the results are matching with Sufian & Habibullah (2012) research. They conducted their studies based on the one country only which is South Africa in the year 2016. The study was conducted using both home and foreign bank data. This study compares both foreign banks and domestic banks globalisation affects towards bank performance. The result indicates that both home and foreign banks are globalised economically. However, the result shows foreign banks are more economically globalised compared to domestic banks. Good labor force and highly educated employees might give a better impact to foreign bank compared to domestic banks as they easily adopt the new technologies, risk management techniques and new financial instruments (Berger, DeYoung, Genay, & Udell, 2000). Most recently, Nguyen & Nguyen (2018), finds that there are significant and positive effects towards bank performance. They conducted this studies in Vietnam and this paper was recently published in the year 2018. According to Nguyen & Nguyen, (2018), typically, domestic banks in developing nations including Vietnam are considered rather powerless and can hardly compete in a globalised situation where capital account is open to liberalisation and the ownership of foreign banks in financial service sectors. In simple words, constraining access of citizens to foreign capital markets or raising restriction on foreign access to domestic capital markets can fill in as an assurance for domestic financial sector. However, it is intriguing to consider the reversed trend in Vietnam when capital account liberalisation applies a beneficial and positive outcome on bank productivity (Nguyen & Nguyen, 2018).

However, not all the studies shows a positive and significant results. Sohaib & Ahmad, (2013), conducted a study on the Impact of Globalization on the banking performance of Pakistan. The result shows that the is no any impact of economic globalisation towards bank performance. It shows a positive result, but it is insignificant towards bank performance. This might be the domestic country restriction. According to Nguyen & Nguyen, (2018), domestic financial institution in developing countries might restrict the citizen to use more foreign capital market rather than domestic markets.

Based on the previous study arguments, we can conclude that there are more positive and significant impact on globalisation towards bank performance. However, there is also an investigation that shows an insignificant effect. Each geography areas have different economic situations. The economic globalisation in developed country and developing country might give a different result on the bank performance. Thus, this study finds that it is interesting to conduct a study on the effects of economic globalisation towards economic growth in Malaysia.

2.1.2.2 Social Globalisation (SG) and Bank Performance

Sufian & Habibullah (2012), indicates that social globalisation gives a positive and significant affect towards bank performance. The research was conducted to find the impact of globalisation towards bank performance in China. Social Globalisation index is divided into three indicators namely personal contacts (Pers_Con), information flows (info_flow), and cultural proximity (Cul_Prox). This is interesting to find that all the 3 indicators show positively significant sign. This indicates that China has a good banking system with outstanding social integration that expressively promotes Chinese banks' performance. In addition, these results supported by Berger, DeYoung, Genay, & Udell, (2000) where they believed that under the "limited form" of the global advantage hypothesis, just the productive organizations or institutions in one or a few number of countries with particular ideal market or regulatory conditions in their domestic country can operate more proficiently than local banks in different countries.

However, not all the countries and research apply the same results. Sufian & Kamarudin (2016) had come with a result that social globalisation brings a negative effect towards bank performance. This study was conducted in South Africa and was published in the year 2016. According to Sufian & Kamarudin (2016), they believed that the culture proximity of home nation might give a negative impact towards the performance of banks that operating abroad. A conceivable reason could be because of the moral hazard issue on the part of foreign banks headquarters, resulting in an absence of screening and checking (Sufian & Kamarudin, 2016). Based on the above statement regarding the global advantage hypothesis, Sufian & Habibullah, (2012) agrees with the hypothesis from Berger, DeYoung, Genay, & Udell (2000) that due to a good market and better regulations in home countries, banks can operate more efficiently than the domestic banks in domestic country. Interestingly, this hypothesis does not apply for South Africa. Empirical findings show that the foreign banks had a huge disadvantage compared to the banks from distant nations. Recently, Nguyen & Nguyen (2018) conducted a study on the impact of globalisation towards the bank performance in Vietnam. The result is equivalent with the result shown by Sufian & Kamarudin (2016) where it also shows a negatively significant result towards bank performance. Nguyen & Nguyen (2018) believed that all the aspects of life in Vietnam had been affected due to the excessive spread of western culture in the country. Due to globalisation, many Vietnamese labour trained aboard to compile with foreign labours. There is also an increment of foreign trained Vietnamese labour and foreign labours in the domestic country due to the advancement of globalisation. Besides that, both foreign and domestic managements are working together by having more foreign shareholders and executives. Therefore, it is the expanding corporate culture and their expert work style that firmly impact the performance of commercial banks. The marketing view, credit development strategies, risk management and client engagement policies of these officials may conflicts with local directors, subsequently influencing the development system and affecting adversely on bank performance (Nguyen & Nguyen, 2018).

Some of the results on social globalisation towards bank performance is contradict to the result that been discussed above. For instance, a study conducted by Sohaib & Ahmad, (2013) on the impact of globalisation on the banking performance in Pakistan shows an insignificant result. They prove that social globalisation does not give any affect towards the bank performance in Pakistan.

Based on the previous studies above, it shows that foreign bank in a domestic country with a good regulations and markets might actually boost and perform better compared to domestic banks in domestic country. However, not all agree with this statement. Previous study by Sufian & Kamarudin (2016) and Nguyen & Nguyen (2018) rejected and disagree with the global advance hypothesis developed by Berger, DeYoung, Genay, & Udell (2000). Besides that, there is also insignificant result on social globalisation towards bank performance. Thus, it is interesting to see the result in Malaysia on agreeing or disagreement on Berger, DeYoung, Genay, & Udell (2000) hypothesis.

2.1.2.3 Politic Globalisation (PG) and Bank Performance

Sufian & Habibullah (2012) proves that there is positive and significant effects on politic globalisation towards bank performance. Sufian & Habibullah (2012) has conducted a research on globalisation and bank performance in China. According to Dreher (2006), politic integration might influence the economic growth. The reformation of politic and economic processes could happen due to high politic integration and this indirectly encourages growth (Dreher, 2006). The empirical results prove that the free trade zone in China, for example China - ASEAN FTA, China – NEW ZEALAND FTA, Hong Kong Closer Economic Partnership Agreement and many more had expressively boost the bank operations in the Chinese banking sector. Besides that, Sufian & Kamarudin (2016) also shows a positively significant effects on globalisation towards bank performance. Based on the banking sector in South Africa, the positive impact might have existed due to the free trade zones agreement such as Africa Caribbean Pacific – European Union (EU – ACP) and many more. This shows that free trade agreements actually gives more benefits than harm to South Africa banking sector (Sufian & Kamarudin, 2016).

However, not all the studies show a positively significant result. There are some studies shows a different result. For instance, Nguyen & Nguyen (2018) conducted a study in Vietnam with a title of Globalisation and bank performance in Vietnam. The study exerts negative and significant result on globalisation towards bank performance. Same as the studies in South African and China, Vietnam also joined and signed the free trade agreement. After joining WTO, the Vietnamese government has introduced a progression of policies and made a legal passageway for international financial institutions and foreign investors to enter the Vietnam banking sector. Foreign banks had put intensely in advertising to extend their market share. The expanding aggressive pressures from foreign opponents brought a considerable measure of challenges for domestic banks. According to Nguyen & Nguyen (2018) local banks have attempted a great effort to receive international standards, for example, the Basel capital system that is considered to upgrade governance and risk hedging. In addition, domestic banks had taken fast responses to managing the banking system restructuring, alongside recovering their clients through convincing services that best address client issues with the appropriation of updated technologies and reasonable reform policies. This indirectly makes the operating costs expanded quickly and it negatively affected the performance of banks in Vietnam during period (Nguyen & Nguyen, 2018).

Other than that, there is also insignificant result on the impact of globalisation towards bank performance. A study conducted by Sohaib & Ahmad, (2013) on the impact of globalisation towards bank performance indicates an insignificant effects.

As a summary, politic globalisation might give an impact towards bank performance in Malaysia. However, it is interesting to conduct a study to find out whether the joining venture with free trade agreement and others actually increases the bank performance or this collaboration might give high competition to domestic banks that will actually increases the expenses in Malaysia and directly gives negatives impact towards bank performance.

2.1.2.4 Credit Risk (LLP/TA) and Bank Performance

In the literature, non-performing loan to total loans is consider as a proxy for credit risk, and a higher ratio demonstrates that there is more risk for losses from loan defaults (Zhang, Jiang, and Wang, 2013). According to Cooper, Jackson, & Patterson (2003), changes in credit risk might reflect the changes of a bank's loan portfolio.

There are some studies that shows a positive and significant sign on the impact of credit risk towards bank performance Zhang, Jiang, Qu, & Wang (2013), Abiola & Olausi (2014) and Syafri (2012) are some of the previous studies that shows a positive and significant effects on credit risk (CR) towards bank performance. Berger, DeYoung, Genay, & Udell, (2000) suggest that under the skimping hypothesis, financial institution tend to expand long-run profits. Therefore, they chose to have a small cost in the short-run by skimping on the capital by devoting their resources to loans, but all the consequences must be bared if there is any problem arise in the loan performance.

However, credit risk (CR) tend to have a negative coefficient as bad loans employs regressive impact on bank performance and most researchers expects to have a negative and significant result on their test. According to Miller & Noulas, (1997), the higher the exposure of banks or financial institution in giving high risk loans, the greater accumulation of unpaid loans and this will directly lower the profitability of the banks. Sohaib & Ahmad,(2013) demonstrate a negative and significant effects on credit risk towards the bank performance in Pakistan. Sufian & Kamarudin, (2016) empirical findings show a negatively significant result in credit risk towards bank performance. According to Sufian & Kamarudin, (2016), South Africa started to look credit risk management seriously. This is because during bank sector crisis, banks realised and learn from mistake based on the failure of banks by creating more reserves to write of impaired assets. The recent study by Nguyen & Nguyen (2018) also indicated to have a negative and significant result on credit risk towards the bank performance in Vietnam. According to Nguyen & Nguyen (2018), the increment of the accumulation of unpaid loans and lower profit loan will directly give a great exposure to higher risk loans. There are many other studies that shows a negative effect such as previous study by Ramlall (2009) and Davydenko (2011) .

Besides that, Hadriche (2015) results show a negative coefficient and significant impact on conventional banks while at the same time it shows a positive and insignificant impact on Islamic banks in GCC countries.

However, it is interesting to find that the study made by Sufian & Habibullah (2012) that the coefficient of credit risk tend to have a positive sign, which is in compatible with the *skimping* hypothesis. However, the result on credit risk towards bank performance in Sufian & Habibullah (2012) study did not show a significant result in any of their regression model.

Most of the authors such as Sufian & Habibullah (2012), Sufian & Kamarudin (2016) and Nguyen & Nguyen (2018) uses the ratio of loan loss provisions to total loans (LLP_TL) as proxy to credit risk. It is interesting to conduct a study in order to see whether the credit risk will affect the bank performance in Malaysia.

2.1.2.5 Bank Size (LTA) and Bank Performance

There are many type of proxies used to measure bank size. However, most of the recent studies such as Sufian & Habibullah, (2012); Sohaib & Ahmad, (2013); Sufian & Kamarudin, (2016); Nguyen & Nguyen, (2018) and many more uses natural log of total assets to measure bank size.

A study conducted by Sohaib & Ahmad, (2013) shows a positive and significant sign on the bank towards the bank performance. This study is conducted in Pakistan and one of the variables used to measure bank characterises is bank size. He believed that large bank size might decreases the cost and at the same time increases the profitability. Besides that, Sufian & Kamarudin, (2016) also shows a positively significant result on the bank size towards the bank performance. This is because large banks tend to have better position as they have a better reputations (Sufian & Kamarudin, 2016). Furthermore, large banks might have a better research facilities and development capabilities which gives them a huge advantage in developing and offer new product and services (Sufian & Kamarudin, 2016). This will indirectly give the large bank acquired a higher volume and market share which will increases their bank performance. There are many other authors have conducted this study, namely Edirisuriya & Gunasekarage (2015), Khrawish (2011) and Alper & Anbar (2011).

However, not all the studies show a positive effect. Sufian & Habibullah (2012) result indicates that there is negatively significant impact towards the bank performance. Prior study from Athanasoglou, Brissimis, & Delis (2008) suggests that by increasing the size of banking firm, marginal cost can be saved. However, the effects of rising bank's size performance might be positive at a limit. Beyond the point, the size could be negative due to governmental and other reason (Eichengreen & Gibson, 2001). The study made by Nguyen & Nguyen (2018) also shows a negative and significant effects to bank performance. Larger banks used to claim that the larger bank size might have an advantage in retrieving extra financial sources and believed that it has higher surviving ability compared to smaller bank size. However, the empirical findings show that, that was a false belief and it happens due to ignoring the potential liquidity problems and threats that large firm might face (Nguyen & Nguyen, 2018). There are many other studies that finds the same negative results such as Syafri (2012).

As a sum up, larger banks might give a huge advantage as it has better research development and reputations. However, there are also some arguments saying that positive impact towards bank performance due to higher bank size might come to an end due to governmental issue. Thus, it is interesting to discover that Malaysia might have a governmental issue due to new political system or larger bank size such as Maybank might have a better performance due to their reputation and new services.

2.1.2.6 Gross Domestic Product (GDP) and Bank Performance

One of well-known macroeconomic output is GDP. In this study, GDP in natural logarithm form (LGDP) as a proxy of macroeconomic output. The result on LGDP for Sufian & Habibullah, (2012) seems to support the argument between economic growth and bank performance. In China, the economic growth has encouraged Chinese banks to lend more, charge higher margins and improves the quality and quantity of assets. According to Said & Tumin, (2011), higher economic growth urges banks to lend more and grants them to charge higher margins, and enhancing the nature of their assets. It is expected to have a positive effect of development in GDP on profitability of banks believed by Kanwal & Nadeem, (2013); Zhang & Daly (2014); Hailegebreal (2016) and Sufian & Kamarudin, (2016).

However, the results differ with the study made by Nguyen & Nguyen (2018). The coefficient of LGDP found by them are negative and statistically significant at 1 percent. The effects of macroeconomics variables on profits arrived from the sensitivity of banking industry towards economy in Vietnam. Real GDP is expected to promote bank profitability. In other words, it is understandable that bad economic conditions will worsen the quality of loans, credit losses and eventually effect the bank performance. Moreover, according to Nguyen & Nguyen (2018) the negative affects between ROA and Economy Growth might happen due to severe competition and lower performance. Some studies have negatively significant results such as Alper & Anbar, (2011) and Sufian, Kamarudin, & Nassir (2017).

Interestingly, there are also insignificant results which conducted by Combey & Togbenou, (2017) in Togo. They believed that there is no relationship between GDP and bank performance in short term. However, the results also show a negative impact of GDP towards bank performance in long term.

Most of the studies believed that better GDP gives a better bank performance where they can do more lending with higher margins and hence increases the bank performance. However, it does not apply to all countries where some countries like Vietnam has a bad economic growth which eventually bring up to bad loans and affected the bank performance negatively. It is interesting to conduct a study in Malaysia to find out whether it shows negative or positive effects.

2.2 Concluding Remarks

In summary, this chapter discussed on the theory and the literature related to past studies. The theory underlying this study is the eclectic theory where this theory explained on the 'OLI' framework which is the ownership advantage, location advantage and internalisation advantage. This is a theory that gives advantages to foreign banks when they enter into domestic country to expand their business. Thus, it is interesting to see whether this theory will have an effect towards the local commercial bank performance in Malaysia. As for literature review on past studies, this chapter found that many authors and researchers have different point of view. The review is being conducted for 7 variables which is ROE, economic globalisation, social globalisation, politic globalisation, credit risk, bank size and last but not least GDP. The past results shows all three positively significant, negatively significant and non-significant results.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Research Design

This study utilized the quantitative research approach by gathering and investigating secondary data to fulfil the research objectives and to obtain an answer for research questions. The secondary data is retrieve from KOF globalisation index, published annual report, Thomson Reuters's data stream and World Bank database. These data can be viewed as suitable and appropriate to be utilized in this study which is similar with previous study. The quantitative methodology as opposed to subjective methodology is attractive to be utilized in this study since this investigation requires a few hypothesis testing's including the utilized of quantitative technique to manage with the data.

3.1 Sample Size

The country that been selected for this investigation is Malaysia. The justification for choosing Malaysia is that the study on globalisation based on KOF globalisation index[1] towards bank performance never been done in Malaysia. Thus, this will be a great outcome for future research. Besides that, Malaysia is well globalised in three specific factors which is economy, social and politic. Hence, this will be a great approach to find the impact of globalisation towards the local commercial bank performance in Malaysia. The data is collected for 10 years which is from the year 2008 till the year

[1] KOF globalisation index is also known as KOF Konjunkturforschungsstelle (KOF Swiss Economic Institution). The KOF Globalisation Index measures the economic, social and political dimension to globalisation. It is used in order to monitor changes in the level of globalisation of different countries over extended periods of time. The current KOF Globalisation Index is available for 185 countries and covers the period from 1970 until 2017.

2017. This study only chooses local commercial banks in Malaysia. Currently, Malaysia has eight local commercial banks which listed in the table 3.0 below.

Table 3.0
List of Malaysian local commercial banks

Numbers	Banks
1	AmBank (M) Berhad
2	Affin Bank Berhad
3	Alliance Bank Malaysia Berhad
4	CIMB Bank Berhad
5	Hong Leong Bank Berhad
6	Malayan Banking Berhad
7	RHB Bank Berhad
8	Public Bank Berhad

(Sources: Bank Negara Malaysia: http://www.bnm.gov.my/index.php?ch=li&cat=banking&type=CB&fund=0&cu=0)

3.2 Theoretical Framework

Theoretical model gives a good direction and set some gaps for the reader of a research paper. According to Hair, Money, Page, & Samouel (2007), a clear picture of hypothesis can be tested with theoretical model which connects the theory and the variables. There is one dependent variable in this study which is bank performance. This model also has seven independent variables namely economic globalisation, social globalisation, politic globalisation, credit risk, bank size and gross domestic product. The theoretical framework is clearly shown in this chapter (Figure 3.1).

3.3 Data Description

Data is divided into two which quantitative and qualitative variables, where measurements of analysis using numbers, images, words, figures, facts or ideas. There are two types of data which is primary data and secondary data. This paper uses secondary data and sources are from various websites and annual report. This research paper is conducted in Malaysia. The data for bank performance which is ROE is obtain from bank's annual report. As for globalisation data, the data is obtained from KOF globalisation index. All the internal factors or the bank specific characteristic data is obtained from bank's annual report. Last but not least, the data for macroeconomic factors is obtain from World Bank database. Data is collected for 10 years which is from the year 2008 till 2017. This study only compromises eight local commercial banks in Malaysia.

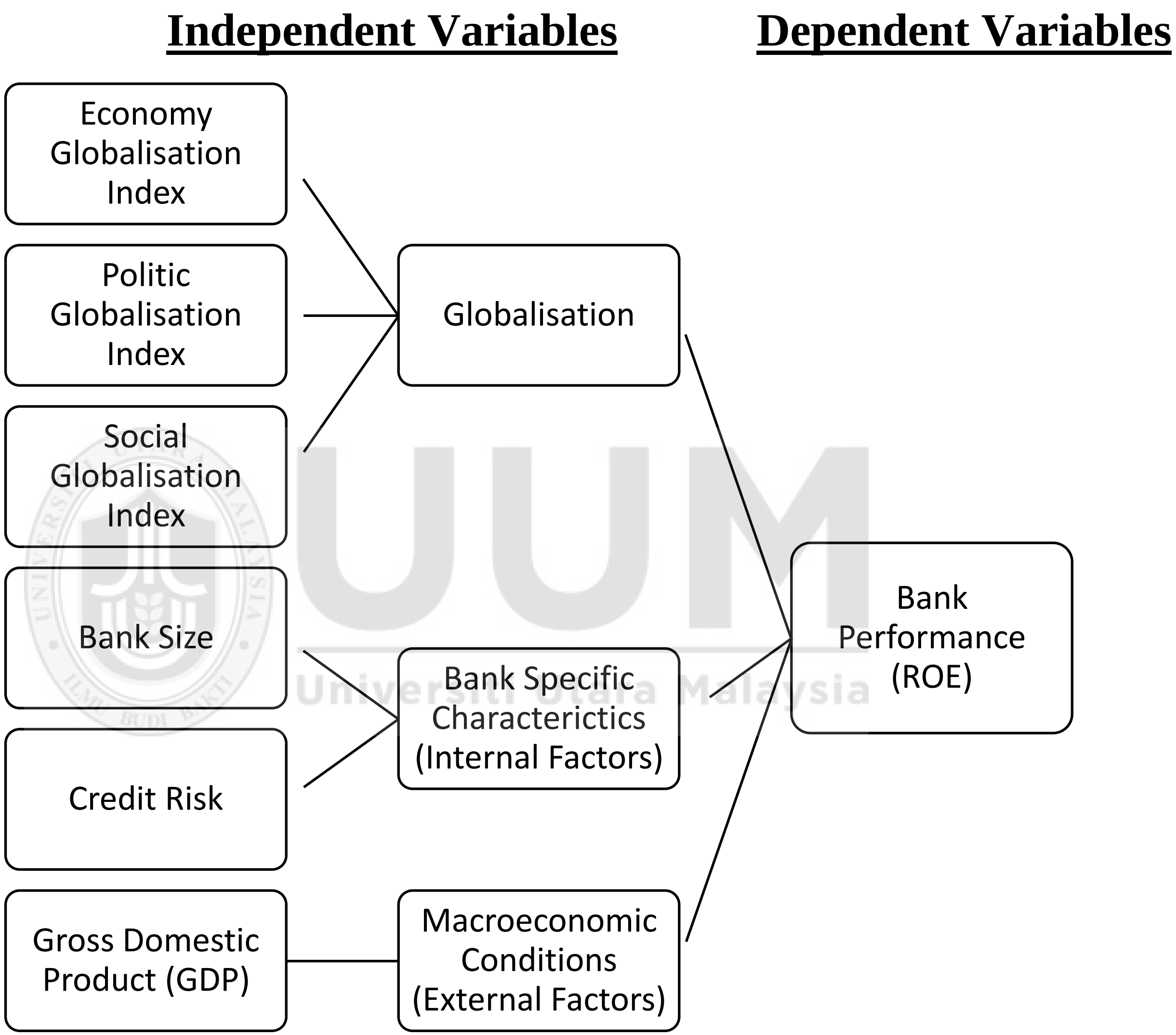


FIGURE 3.1 - *The Theoretical Framework of the Study*

3.4 Variables and Hypothesis

3.4.1 Dependent Variables

3.3.1.1 Bank Performance – Return on Equity (ROE)

Bank performance will be measured by ROE. ROE is basically being selected to measure the profitability of a bank or financial institutions referred to as bank performance. ROE was first introduced and developed by Donaldson Brown in the year 1919. This method is known as DuPont analysis. DuPont analysis is basically a framework that been a fundamental to measure performance. ROE shows the management capacity to create profits for a bank from the financial and the real investment assets without using leverage.

Many previous studies have uses ROE in their study to measure bank performance. Chowdhury & Rasid (2015) have used return on equity as their dependent variables. It is noticed that, both ROE and return on assets (ROA) is widely used in order to measure the bank performance. However, according to Alexiou & Vogiazas (2009), ROA can be biased of one point it doesn't not take account on off balance sheet activities. Therefore, we can consider ROE is one of the best measurement to measure bank profitability compared to other ratios, such as ROA (Siddik, Sun, Kabiraj, Shanmugam, & Yanjuan, 2016).

The formula used to calculate Return on Equity (ROE):

$$ROE = \frac{NET\ INCOME}{TOTAL\ EQUITY}$$

3.4.2 Globalisation

3.4.2.1 Economic Globalisation and Bank Performance

One of the dimensions in globalisation is Economic Globalisation. Economic globalization refers to the portability of individuals, capital, innovation, merchandise and services universally. It is additionally about how integrated nations are in the worldwide economy. It also refers to how associated diverse nations and regions have progressed have become over the world. Economic globalisation is measured by the index from KOF globalisation index which is introduced by Dreher (2006). Economic globalisation is an index that consists of the average of trade globalisation and financial globalisation index.

Generally, the domestic financial institutions or banks in developing country are weak and very hard to compete globally. In other words, domestic financial sector is trying to protect themselves by raising restriction and limit the access of people to foreign capital market. However, previous study from Nguyen & Nyuyen (2018) shows that the trend reverse in Vietnam. They find that economic globalisation actually exerts a positive and significant effects on the bank performance in Vietnam. There are many other studies that uses economic globalisation as their variables such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016) and many more. There is no formula for Economic Globalisation and the index is obtained straight away from KOF globalisation index. Therefore, the hypothesis for economic globalisation is:

H1: Economic globalisation has significant relationship with bank performance.

3.4.2.2 Social Globalisation and Bank Performance

Social globalization is evident in the similarities of social patterns between societies, from consumerism to arts and humanities. For instance, take note of the overall fame of chain eateries like McDonald's. The same thing applies for banks. Social globalisation is measured by the index from KOF Globalisation index which is introduced by Dreher (2006). Social globalisation is an index that consists of the average of Interpersonal globalisation, Information Globalisation and Cultural Globalisation index.

Sufian & Habibullah, (2012), have conducted a research on the globalisation and bank performance in China. They found that social globalisation gives a positive and significant impact on the bank performance in China. According to Berger, DeYoung, Genay, & Udell (2000), a limited form of globalisation gives a huge advantages, where the foreign country with better regulatory and market conditions can operate better in home country compared to other domestic banks in the same nations. However, the study in Vietnam by Nguyen & Nguyen (2018) gives a different result. This study shows negative and significant result towards the bank performance. According to them, the credit growth policies, marketing, risk management and the engagement of clients might conflict with local managers. Thus, it shows a negative impact towards bank performance in Vietnam. There are also other previous studies that uses this variable which is from Sohaib & Ahmad,(2013), Sufian & Kamarudin (2016) and many more. There is no formula for Social Globalisation and the index is obtained straight away from KOF Globalisation Index. Therefore, the hypothesis for Social globalisation is:

H2: Social globalisation has significant relationship with bank performance.

3.4.2.3 Politic Globalisation and Bank Performance

Political globalisation is turning into a vital and necessary factor in our present reality. As humans, we have discovered that we should meet up to accomplish extraordinary objectives on a global level. Political globalisation can be characterized as different nations meet up to examine about issues the world over and to find the solution to overcome the issues. The same applies for bank performance. Political globalisation gives a great impact towards bank performance. Politic globalisation is measured by the index from KOF globalisation index which is introduced by Dreher (2006).

Politic globalisation has a positive and significant impact on the bank performance in China (Sufian & Habibullah, 2012). Dreher (2006) says that political integration can influence the economic growth. Thus, high political integration bring reformation in both economic and politic and it will directly promote the growth (Dreher, 2006). However, the result is totally different for the study in Vietnam by Nguyen & Nguyen (2018). After joining World Trade Organisation (WTO), Vietnam launch many policies that attract the foreign investors. However, the raising of foreign banks gave them a huge competition. In order to compete with them, domestic banks take a quick respond to update their technologies. This quick respond consumes a lot of money and the operating expenses raised rapidly and finally shows a negative and significant effects on the bank performance. There are many other studies that uses politic globalisation as their variables such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016) and many more. There is no formula for Politic globalisation and the index is obtained straight away from KOF globalisation index. Therefore, the hypothesis for politic globalisation is:

H3: Politic globalisation has significant relationship with bank performance.

3.4.3 Bank Characteristics

3.4.3.1 Credit Risk and Bank performance

Credit risk is the possible risk of loss resulting from a borrower's failure to reimburse a loan or meet contractual obligations. Traditionally, it refers to the risk that a creditor may not receive the owed principal and interest, which results in a disruption of cash flows and bigger costs for collection.

The ratio of loan loss provisions to total loans is used as a proxy for credit risk. Credit risk is expected to be negative and significant. This is because bad loans tend to give a huge negative impact to bank performance. Miller & Noulas (1997) said that the greater the exposure of a bank on high risk loans, the higher the changes to have accumulation of unpaid loans. Decline in loan loss provisions is one of the reason of the increment of profit margins (Miller & Noulas, 1997). Besides that, Thakor & Besanko (1987) suggests that the level of loan loss provisions is one of the way to indicate bank’s asset quality and a way to change future performances. The previous study from Sufian & Kamarudin (2016), shows a negative and significant result towards the performance of banks in South Africa. There are many other studies that uses economic globalisation as their variables such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), , Nguyen & Nguyen (2018) and many more.

The formula used to calculate credit risk:

$$\text{Credit Risk} = \frac{LOAN\ LOSS\ PROVISIONS}{TOTAL\ LOAN}$$

Therefore, the hypothesis for credit risk is:

H4: Credit risk has significant relationship with bank performance.

3.4.3.2 Bank Size and Bank Performance

Bank size is the total market value of the securities in a fund. It can also be referred to as assets under management. Funds regularly report total assets which can be affected by supply, demand and market return.

The earlier studies by among others Athanasoglou, Brissimis, & Delis (2008) suggests that marginal cost savings can be achieved by increasing the size of the banking firm, especially as markets develop. The effect of a growing bank's size on performance may be positive up to a certain limit. (Eichengreen & Gibson, 2001). There are many other studies that uses economic globalisation as their variables such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016), Nguyen & Nguyen (2018) and many more.

The formula uses to calculate Bank Size:

Bank Size = Natural Log of Total Assets

Therefore, the hypothesis for Bank size:

H5: Bank size has significant relationship with bank performance.

3.4.4 Macroeconomic Conditions

3.4.3.3 Gross Domestic Product (GDP) and Bank Performance

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well (in the United States, for example, the government releases an annualized GDP estimate for each quarter and also for an entire year).

The high economic growth could have encouraged banks to lend more, permits them to charge higher margins, and improves the quality of their assets (Sufian & Habibullah, 2012). Effects of macroeconomic variables on profit naturally originate from the sensitivity of the banking sector against changes in the economy. Naturally, an increase in real GDP is expected to promote bank profitability. In other words, bad economic conditions might worsen the quality of loan portfolio, generate credit losses and eventually reduce bank profits (Nguyen & Nguyen, 2018). There are many other studies that uses economic globalisation as their variables such as Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016) and many more.

The formula uses to calculate GDP:

$$GDP = \text{Natural Log of GDP}$$

Therefore, the hypothesis for GDP:

H6: GDP has significant relationship with bank performance

3.4.5 Hypothesis Summary

H1: Economic globalisation has significant relationship with bank performance.

H2: Social globalisation has significant relationship with bank performance.

H3: Politic globalisation has significant relationship with bank performance.

H4: Credit risk has significant relationship with bank performance.

H5: Bank size has significant relationship with bank performance.

H6: GDP has significant relationship with bank performance.

3.4.6 Operational Definition

Table 3.1 indicates the operation definitions, sign, past studies and sources.

Table 3.1:
Variables Information

Variables	Definitions	Past Studies	Sources
Return on Equity (ROE)	ROE is basically being selected to measure the profitability of a bank or financial institutions referred to as bank performance	Dietrich & Wanzenried, (2011);Said & Tumin, (2011); Smaoui & Salah,(2011); (Akhisar, Tunay, & Tunay, 2015) (Robin, Salim, & Bloch, 2017)	Annual Report
Economic Globalisation (EG)	Economic globalization refers to the portability of individuals, capital, innovation, merchandise and services universally	(Dreher, Does globalization affect growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013)	KOF Globalisation Index

		(Nguyen & Nguyen, 2018)	
Social Globalisation (SG)	Social globalization is evident in the similarities of social patterns between societies, from consumerism to arts and humanities	(Dreher, Does globalization affect growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013) (Nguyen & Nguyen, 2018)	KOF Globalisation Index
Politic Globalisation (PG)	Political globalization can be characterized as different nations meet up to examine about issues the world over and to find the solution to overcome the issues	(Dreher, Does globalization affect growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013)	KOF Globalisation Index

		(Nguyen & Nguyen, 2018)	
Credit Risk (LLP/TL)	Credit risk is the possible risk of loss resulting from a borrower's failure to reimburse a loan or meet contractual obligations	(Miller & Noulas, 1997) (Thakor & Besanko, 1987) (Dreher, Does globalization affect growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013) (Nguyen & Nguyen, 2018)	Annual Report
Bank Size (LTA)	Bank size is the total market value of the securities in a fund. It can also be referred to as assets under management	(Athanasoglou, Brissimis, & Delis, 2008) (Eichengreen & Gibson, 2001) (Dreher, Does globalization affect	Annual Report

		growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013) (Nguyen & Nguyen, 2018)	
GDP (LGDP)	Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.	(Dreher, Does globalization affect growth? Evidence from a new index of globalization, 2006) (Sufian & Habibullah, 2012) (Sohaib & Ahmad, 2013) (Nguyen & Nguyen, 2018)	World Bank Data

3.5 Statistical Analysis

3.5.1 Descriptive Analysis

Descriptive analysis is utilized to portray the basic features of the information or data in an investigation. It provides summaries on the sample and measures. Together with basic designs study, it frames the basis of virtually of quantitative investigation of data. This study uses univariate analysis where it uses three major characteristics in a variable which is the distributions, central tendency and the dispersion. However, this study only focuses on central tendency and dispersion. Central tendency finds the mean, mode and median. This study uses mean as a central tendency measurement. This is because mean is a proportion of central tendency that offers a general image of the information without pointlessly immersing one with every one of the observations in a data collection. As for dispersion, this study uses standard deviation as it is the best in accuracy and detailed estimation of dispersion and it able exaggerate the range well

3.5.2 ANOVA analysis

ANOVA analysis plays a major factor in this study. However, before this analysis is been conducted it is vital to make sure the assumptions are met. The assumptions that been used is normality and homogeneity of variance. Normality test is conducted and analyse through skewness and kurtosis value. While, the test that been used to find the homogeneity of variance is Levene's test.

ANOVA inspects the significant mean contrasts among two groups or more on an interval or dependent variables. Significant mean differences in variables among groups is tested through ANOVA. ANOVA demonstrate whether the means for the different groups are different significantly among each other, as shown by the F statistic. Based on this study, the ANOVA is utilized to discover the mean differences in the composition of the bank performance of local commercial banks in Malaysia.

3.5.3 Diagnostic Analysis (assumptions)

Regression diagnostic or assumptions is vital to be check before proceeding to regression analysis. The assumptions that been used are normality, linearity, multicollinearity and homogeneity. All these assumptions are conducted on SPSS software version 25.

3.5.3.1 Normality

According to Garson (2012), normality test is intended to analyse both independent and dependent variables data are normally distributed and reliable. Normality test and be analyse through skewness and kurtosis value. This study focuses on skewness and kurtosis results. Both skewness and kurtosis should be within +2 to -2 range as it considered as normal distributions (Hair, Money, Page, & Samouel, 2007). This test is conducted through SPSS software version 25.

3.5.3.2 Linearity

Linearity analysis finds the slope and the intercept to assume the relationship between independent and dependent variables. This can be seen by looking at straight line. This study uses P-P Plot to conduct linearity test.

3.5.3.2 Multicollinearity

Multicollinearity exist when the independent variable has high correlation with other variables. The ideal results for a researcher conducting a study is to have high correlation between independent and dependent variable, however the correlation between independent variables should be low. Measurement that used to find multicollinearity is tolerance value and also variance inflation factor (VIF). If the tolerance value less than 0.2 and at the same time if the VIF is more than 10, then multicollinearity exist. This study uses SPSS version 25 to find tolerance value and VIF to investigate multicollinearity problem.

3.5.3.3 Homogeneity

Homogeneity is one of the assumption dependent variables demonstrate equal level of variance trough the range of independent variables. Homogeneity test is essential because variance of dependent variables should be explained in the large range of independent variables and not in the limited range. This study uses Levene's test to find the homogeneity using SPSS software version 25.

3.5.4 Correlation Analysis

Correlation analysis designed to find and quantify the relationship strength. This statistic improves the prediction of variables by understanding the causal relationship among variables. This study uses bivariate Person correlation analysis using SPSS software version 25 to find the strength of association between numerical variables. The range of coefficient should be from +1 to -1.

3.5.5 Multiple Regression Analysis

The best prediction of dependent variable and independent variables can be measure through regression result. This study uses pooled ordinary least square (POLS) to perform multiple regression analysis. This study uses SPSS software version 25 to run multiple regression result by selecting linear regression and ROE is selected in dependent box. Next, all the independent variables which economic globalisation, social globalisation, politic globalisation, credit risk, bank size and GDP are selected in the independent box. Stepwise is the method used to run multiple regression analysis.

3.5.5.1 Regression Equitation Model

$Y = \beta_0 ROE_{j,t} + \beta\sum BankCharacteristics_{j,t} + \beta\sum MacroeconomicConditions_t + \beta\sum Globalisations_t + \mu it$ ……………………………..(i)

$Y = \beta_{0\,j,t} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_5 X_6 + \mu it$

Where,

- ROE = Return on equity
- Bank characteristics = credit risk (LLP/TA), bank size (LTA)
- Macroeconomics condition = gross domestic product (GDP)
- Globalisation = economic globalisation (EG), social globalisation (SG) and politic globalisation (PG).
- β_0 = Constant
- j = individual bank
- t = time period
- μ = error term
- X_1= Credit risk
- X_2= Bank size
- X_3= Gross domestic product
- X_4= Economic globalisation
- X_5= Social globalisation
- X_6= Politic globalisation

3.6 Concluding Remarks

This chapters describes the methods that been used for this research to achieves the objectives. The relationship of dependent and independent variables is well explained through theoretical framework. Dependent variable for this study is ROE, while as for independent variables it consists of six which is economic globalisation, social globalisation, politic globalisation, credit risk, bank size and GDP. Six hypotheses are developed to ensure the objectives is achieved. The globalisation data is obtained from KOF globalisation index, while the internal factors data is collected from annual bank report and finally the sole variable data for external factors which is GDP is obtained from the world bank data. This research is quantitative research and multiple regression analysis is used to find the findings.

CHAPTER 4

DISCUSSION OF RESULTS

4.0 Summary of Statistics

This study used 8 local conventional banks in Malaysia for a period of 10 years which is from the year 2008 till 2017. Based on the data collected, return on equity (ROE) is used as dependent variable proxy for bank performance while economic globalisation, social globalisation, politic globalisation, credit risk, bank size and GDP are the independent variables.

4.1 Descriptive Analysis

As shown in the Table 4.2, the descriptive analysis states that variables have 80 observations. ROE has the mean value of 13.1670 while the maximum is value is 27.35 and the minimum value is 3.13. The standard deviation of ROE is 4.64893. Mean value for economic globalisation, social globalisation, politic globalisation, credit risk, bank size and GDP are 71.4310, 78.8960, 85.5050, 0.003234, 18.8437 and 1.2589 respectively. The standard deviation for economic globalisation, social globalisation, politic globalisation, credit risk, bank size and GDP are 4.32164, 2.65821, 2.65821, 1.03375, 0.0033232, 0.86778 and 0.21327 respectively. As overall, ROE has the highest standard deviation and largest variation between the minimum and maximum among all the variables. ROE has the maximum value of 27.35 and minimum value of 3.13. This implies that from the mean of ROE, the dispersion is more spread for ROE compared to other variables.

Table 4.1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	80	3.13	27.35	13.1670	4.64893
EG	80	67.96	81.46	71.4310	4.32164
SG	80	73.81	81.38	78.8960	2.65821
PG	80	83.42	86.50	85.5050	1.03375
LLP/TA	80	-.00198	.01251	.0032345	.00332321
LTA	80	17.13	20.45	18.8437	.86778
LGDP	80	.98	1.70	1.2589	.21327

4.2 Correlation Analysis

Table 4.2.2 shows the result of correlation analysis. Based on the result, it shows that there are four variables that correlate with the return on equity (ROE). They are economic globalisation (EG), social globalisation (SG), politic globalisation (PG) and Bank Size (LTA). Meanwhile, credit risk (LLP/TA) and GDP (LGDP) does not show any significant affect towards ROE. In simple words, the variables credit risk and GDP does not correlate with the bank performance (ROE).

Based on the result above, it shows that there are three variables positively correlated with the dependent variables which is the ROE. They are social globalisation, politic globalisation and bank size. Both social globalisation and politic globalisation is highly and positively correlated with ROE which at the value of 0.306 and 0.321 respectively. Both social globalisation and politic globalisation is significant at the level 0.01. The independent variable bank size also shows a positive value towards ROE which at the value of 0.223. However, it is slightly different between social globalisation and politic globalisation as the significant level for bank size toward ROE is at 5% (0.05) level.

Meanwhile, economic globalisation shows a negative correlation, yet it is significant with ROE which is at the value of -0.386 (significant at the 1% level). In the other hand, both credit risk and GDP show insignificant result towards ROE.

Table 4.2:
Correlation Analysis

		ROE	EG	SG	PG	LLP/TA	LTA	LGDP
ROE	Pearson Correlation	1	**-.386*****	**.306*****	**.321*****	-.129	**.224****	.035
	Sig. (2-tailed)		**.000**	**.006**	**.004**	.255	**.046**	.757
EG	Pearson Correlation	-.386***	1	-.859***	-.886***	-.185	.205	-.181
	Sig. (2-tailed)	.000		.000	.000	.100	.068	.109
SG	Pearson Correlation	.306***	-.859***	1	.971***	-.053	-.077	.079
	Sig. (2-tailed)	.006	.000		.000	.640	.497	.488
PG	Pearson Correlation	.321***	-.886***	.971**	1	-.036	-.091	.120
	Sig. (2-tailed)	.004	.000	.000		.750	.421	.288
LLP/TA	Pearson Correlation	-.129	-.185	-.053	-.036	1	.070	-.033

	Sig. (2-tailed)	.255	.100	.640	.750		.539	.773
LTA	Pearson Correlation	.224*	.205	-.077	-.091	.070	1	-.014
	Sig. (2-tailed)	.046	.068	.497	.421	.539		.900
LGDP	Pearson Correlation	.035	-.181	.079	.120	-.033	-.014	1
	Sig. (2-tailed)	.757	.109	.488	.288	.773	.900	

N = 80
***. Correlation is significant at the level 0.01 level (2-tailed)
**. Correlation is significant at the 0.05 level (2-tailed)
*. Correlation is significant at the 0.10 level (2-tailed)

4.3 Normality

There are many ways to assume normality in a test. In this study, normality test is obtained from skewness and kurtosis value. According to Hair, Money, Page, & Samouel, (2007), both skewness and kurtosis should be within the range of +2 to -2 are considered as normal distribution. Based on the result in Table 4.1, all the variables which is return on equity (ROE), economic globalisation (EG), social globalisation (SG), politic globalisation (PG), credit risk (LLP/TA), bank size (LTA) and GDP (LGDP) achieves normality assumptions. Therefore, further analysis can be proceeding to achieve the objectives of the study.

Table 4.3:
Normality Analysis

	Skewness		**Kurtosis**	
	Statistic	Std. Error	**Statistic**	Std. Error
ROE	**.701**	.269	**1.162**	.532
EG	**1.506**	.269	**.710**	.532
SG	**-1.086**	.269	**-.399**	.532
PG	**-1.201**	.269	**-.091**	.532
LLP/TA	**.944**	.269	**.352**	.532
LTA	**-.131**	.269	**-.920**	.532
LGDP	**.701**	.269	**-.370**	.532

4.4 Linearity

The relationship between variables can be identified by using linearity analysis. The main objectives of linearity analysis are basically not to test whether the data is linear or not, whereas it is intended and used to finds the slope and the intercept that assumes the relationship between both dependent and independent variables by looking at a straight line. This study uses Normal P-P Plot of Regression Standardized Residual in order to conduct the linearity analysis. Figure 4.1 gives the result of linearity analysis of this study. Based on the graph in figure 4.1, it shows a liner line where it verifies that the data used for this study can be considered as linear and most importantly it has not violated the linearity assumptions. Thus, further test can be conducted.

Normal P-P Plot of Regression Standardized Residual

Dependent Variable ROE

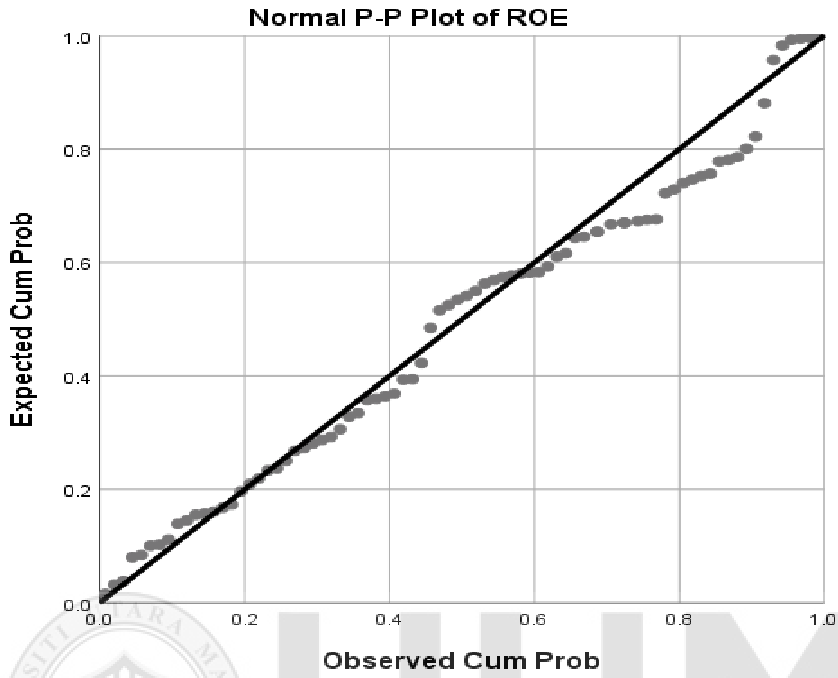


Figure 4.1: Linearity Graph

4.5 Multicollinearity

Multicollinearity happens when two or more independent in multiple regression is highly correlated among each other. Besides, predictors often overestimate the standard deviation of regression coefficient and it directly gives a major problem in multicollinearity. Both tolerance and variance inflation factors (VIF) simultaneously played a vital role in finding multicollinearity problem. The tolerance with below 0.1 level and together with VIF value above 10 indicates multicollinearity issues.

Multicollinearity is very troublesome as it increases the variance of regression coefficients. This will eventually make the regression coefficients very hard to interpret and unstable. VIF is often used to investigate and measure how much multicollinearity exists in regression analysis.

Based on the Table 4.4, it shows that social globalisation (SG) has the highest VIF which is 17.503 and simultaneously the tolerance does not fit the criteria as it is at 0.057 which is lower than 0.1. This indicate that social globalisation (SG) has some multicollinearity problem. However, all the other variables met the criteria, where the VIF is less than 10 and at the same time the tolerance is more than 0.1. Therefore, the further analysis is still being conducted as majority of the variables does not have multicollinearity problem.

Table 4.4:
Collinearity Statistics

Model	t	Sig.	Collinearity Statistics	
			Tolerance	VIF
(Constant)	2.932	.004		
EG	-4.645	.000	.148	6.741
LTA	4.270	.000	.872	1.147
LLP/TA	-3.616	.001	.739	1.353
PG	-2.771	.007	.160	6.244
SG	-0.755	.453	.057	17.503
LGDP	-1.067	.290	.942	1.062

Dependent Variable: ROE

4.6 Homogeneity

The demonstration of results on analysation on the differences of ROE of Malaysian local banks can be seen in the Table 4.5. The Levene statistic for levene's test is 2.120 and it is not significant at 0.05 level. Therefore, this shows that the ROE variance is approximately equal, and it meets the homogeneity assumption

Table 4.5:
Test of Homogeneity of Variances (ROE)

Levene Statistic	**df1**	**df2**	**Sig.**
2.120	7	72	.052

4.7 Multiple Regression

The multiple regression is tested between independent variables and dependent variable in this study. According to Saleem & Rashid (2011), one of the hypothesis used to analyse the relationship between independent and dependent variable is regression analysis. Therefore, in this study, the independent variables of economic globalisation, social globalisation, politic globalisation, bank size, credit risk and GDP were analysed to the effect of these variables towards ROE.

4.7.1 Model Summary

Based on the table 4.3.1, the R-square shows the value of 0.367, which means 36.7% of the total variance of dependent variables can be explained by the independent variables. While, the adjusted R-square shows 0.334 or 33.4% of independent variables that able to explain the dependent variable in this study.

Table 4.6:
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
4	.606	.367	.334	3.79485

Dependent Variable: ROE

4.7.2 ANOVA

Based on the result in ANOVA analysis, the significant value shows 1% level with the value of 10.890. This indicates that it is statistically significant relationship on predictors towards ROE.

Table 4.7:
ANOVA analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	627.328	4	156.832	10.890	.000[e]
Residual	1080.066	75	14.401		
Total	1707.394	79			

Dependent Variable: ROE

4.7.3 Coefficient Analysis

Table 4.8:
Coefficient Analysis

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		2.932	.004
EG	-1.107	-4.645	.000
LTA	.420	4.270	.000
LLP/TA	-.386	-3.616	.001
PG	-.636	-2.771	.007
SG	-.291	-.755	.453
LGDP	-.101	-1.067	.290

Table 4.8 shows the coefficient analysis for economic growth, social globalisation, politic globalisation, bank size, credit risk and GDP towards the dependent variables which is the ROE.

$Y = \beta_0 ROE_{J,t} + \beta\sum BankCharacteristics_{J,t} + \beta\sum MacroeconomicConditions_t + \beta\sum Globalisations_t + \mu it$……………………………………………………………………… (i)

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

$$Rit = \beta_0 + \beta_1 LLP/TA + \beta_1 LTA + \beta_3 LGDP + \beta_4 EG + \beta_5 SG + \beta_6 PG$$

$$Rit = \beta_0 - 0.386 LLP/TA + 0.42 LTA + 0.101 LGDP - 1.107 EG - 0.291SG - 0.636 PG$$

t- stat = (2.932) (-4.645) (4.270) (-1.067) (-4.645) (-0.755) (-2.771)

Prob. (0.004) (0.001) (0.000) (0.290) (0.000) (0.453) (0.007)

n = 80
R^2 = 0.367
Adjusted R^2 = 0.334

4.7.3.1 Relationship between economic globalisation (EG) and ROE

The result on the regression test shows that economic growth has negative relationship with the bank performance of eight conventional local banks in Malaysia. This indicates that 1-unit increment in economic globalisation causes the bank performance of selected eight local conventional banks to decrease by 1.107 units with the assumption that all the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated economic globalisation has significance relationship is accepted. In short, economic globalisation has a significance relationship with ROE of eight local conventional banks in Malaysia. According to previous study by Nguyen & Nguyen (2018), the plausible reason for developing country such as Malaysia might have negative results because developing country considered rather weak and can barely compete in a globalised situation where capital account is open to liberalisation and the ownership of foreign banks in financial service sectors.

4.7.3.2 Relationship between politic globalisation (PG) and ROE

The result shown in the Ordinary Least Square model reflects that politic globalisation has a negative relationship with the bank performance of eight local conventional banks in Malaysia. This indicate that 1unit increase in politic globalisation will causes 0.636 decrease in bank performance of the selected eight local conventional banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated politic globalisation has a significance relationship is accepted. As the result, politic globalisation has a significance relationship with the ROE for selected eight local conventional banks in Malaysia. Previous study from Vietnam conducted by Nguyen & Nguyen (2018) also have the same negatively significant result towards bank performance. There is some possible reason on why the result is showing negative relationship towards ROE in Malaysia. Malaysia joined and signed many free trade agreements like other developing countries such as Vietnam, South Africa and many more. In fact, Malaysia had been a member of WTO since January 1st, 1995. This shows globalisation already happen long time ago in Malaysia through politic globalisation. These agreements bring plenty foreign banks to penetrate into Malaysian banking industry via politic globalisation. Foreign banks have done a good job in advertising to extend their market share. Thus, this competitive pressure given by the foreign bank triggers the local bank to do the same to remain competitive in the market. Malaysian local banks adopted Basel capital system, restructure the bank system and updated their banking technologies to compete in the market. However, this indirectly increases the operating cost and gives negative impact to the bank performance.

4.7.3.3 Relationship between credit risk (LLP/TL) and ROE

The result shown in the Ordinary Least Square model reflects that credit risk has a negative relationship with the bank performance of eight local conventional banks in Malaysia. This indicate that 1 % increase in credit risk will causes 0.00386% decrease in bank performance of the selected eight local conventional banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated credit risk has a significance relationship is accepted. As the result, credit risk has a significance relationship with the ROE for selected eight local conventional banks in Malaysia. An accumulation of credit risk or unpaid loans will directly lower the profitability of the bank (Nguyen & Nguyen, 2018). Some of the studies such as Ramlall (2009), Sohaib & Ahmad (2013), Sufian & Kamarudin (2016) and Nguyen & Nguyen (2018) supports this result.

4.7.3.4 Relationship between bank size (LTA) and ROE

The result shown in the Ordinary Least Square model reflects that bank has a positive relationship with the bank performance of eight local conventional banks in Malaysia. This indicate that 1 % increase in bank size will causes 0.0042% increment in bank performance of the selected eight local conventional banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated bank size has a significance relationship is accepted. As the result, bank size has a significance relationship with the ROE for selected eight local conventional banks in Malaysia. The plausible reason is that the larger banks in Malaysia might have good facilities, technologies which gives a great advantage for banks to develop new products and this directly gives a positive impact towards bank performance. Many previous study such as Khrawish (2011), Sohaib & Ahmad (2013) and Sufian & Kamarudin (2016) supports this result.

4.7.3.5 Relationship between social globalisation (SG) and ROE

The result shown in the Ordinary Least Square model reflects that bank has a negative relationship with the bank performance of eight local conventional banks in Malaysia which has a coefficient value of -0.291. However, the significant level does not support the result and it exceeded 1%,5% and even 10% which indicate insignificant value. Based on the significance level 1%, the alternate hypothesis that stated social globalisation has a significance relationship is rejected. As the result, social globalisation has an insignificance relationship with the ROE for selected eight local conventional banks in Malaysia. The study conducted by Sohaib & Ahmad (2013) also shows insignificant results.

4.7.3.6 Relationship between GDP (LGDP) and ROE

The result shown in the Ordinary Least Square model reflects that GDP has a negative relationship with the bank performance of eight local conventional banks in Malaysia which has a coefficient value of -0.101. However, the significant level does not support the result and it exceeded 1%,5% and even 10% level which indicate insignificant value. Based on the significance level 1%, the alternate hypothesis that stated LGDP has a significance relationship is rejected. As the result, GDP has an insignificance relationship with the ROE for selected eight local conventional banks in Malaysia. Combey & Togbenou (2017) also shows insignificant results on GDP towards bank performance.

4.8 Concluding Remarks

This chapter shows the results and the findings of the analysis. The analysis starts with descriptive analysis where it explained the maximum values, minimum values, and the mean of each variables. It is then followed by correlation analysis where it shows the relationship between independent variables and dependent variables. Correlation analysis also shows the relationship among independent variables. Next, the test continued with diagnostics analysis where assumptions are made before the regression analysis is conducted. Four analyses are conducted under diagnostics test which is normality, linearity, multicollinearity and homogeneity. Last but not least, multiple regression test was conducted to find the relationship between dependent and independent variables. Results shows that four variables show significant relationship towards bank performance while two variables does not show significant relationship towards bank performance.

CHAPTER 5

CONCLUSION

5.1 Summary of Findings

5.1.1 Objective 1

There are many factors that affects the bank performance. One of the factor that affects the bank performance it within the bank itself which is the bank characteristics or the internal factors. Sample, period and specifications plays a vital role for the impact of bank characteristics towards the bank performance (Nguyen & Nguyen, 2018). The first objective of this study is regarding the analysation of bank specific characteristics towards bank performance in Malaysia. Based on the first objective, the finding indicates that both variables used which is the credit risk and the bank size shows a significant correlation with bank performance.

Based on the result in chapter 4, it shows that credit risk gives a negative impact on the bank performance. The plausible reason is because the higher the increment of the unpaid loans, the higher the exposure in getting high risk loans. The empirical findings clearly show that the local commercial banks in Malaysia should never stop focusing and give more attention in credit risk management. High risk loans have a great chance to turn into default and directly affect the bank performance. The escalating bankruptcy cases in Malaysia have additionally encouraged the development of a more sophisticated model in managing credit risk. Malaysian bank should look forward in giving loans based on the proper credit rating given by central bank of Malaysia or known as Bank Negara Malaysia (BNM). Taking risks by giving high risk loans might gain higher profit but at the same time banks need to aware that higher risk has higher consequences too. Enormous help from the central bank towards smoothing these abnormalities could be given by enhancing the transparency in the banking sector, which in turn help banks to evaluate credit risk more efficient and effectively and stay away from issues related with risky exposure. For instant, central bank may support and manage the banking system by setting a particular models or standards for loan loss provision levels whereby they can able to adjust their provisions on loan losses. In short, it is vital for Malaysian banks to improve their monitoring as well as forecasting future risk in order to gain greater earning in future. Ramlall (2009), Sohaib & Ahmad (2013), Sufian & Kamarudin (2016) and Nguyen & Nguyen (2018) are some of the studies that supports the result in the chapter 4.

According to the findings in chapter 4, the study found that bank size shows a positive correlation towards bank performance. This indicates that larger banks give have huge advantage compared to smaller banks to boost Malaysian bank's performance. Nguyen & Nguyen (2018), mentioned that when the bank size increases, there will be also an increment on the bank earnings. The conceivable reason is that the bigger banks in Malaysia may have great facilities, technologies which gives an extraordinary preferred standpoint for banks to grow new products and this will directly give a positive effect towards bank performance. For instance, Maybank is largest bank in Malaysia that able to come up with online banking which is Maybank2u first compared to other banks. One of the possibility is that Maybank has a better development and large assets under research and development and hence they able to come up with latest technologies first compared to other local commercial banks in Malaysia. Furthermore, larger banks in Malaysia are probably going to enjoy more prominent market power via tremendous branch networks which will bring down costs on their inputs. However, it is also essential for large banks in Malaysia to take serious on the potential liquidity problems and treats that they might face. Khrawish (2011), Sohaib & Ahmad (2013) and Sufian & Kamarudin (2016) are some of the studies that support the result in the chapter 4.

5.1.2 Objective 2

The second objective of this study is regarding the effects of macroeconomics variable or external factors towards the bank performance. The sole variable used to fulfil the second objective is natural logarithm of gross domestic product (LGDP). The findings indicate GDP has no significant effects towards the bank performance. This shows that GDP doesn’t show any positive or negative effects on the performance of local commercial banks in Malaysia. The plausible reason is Malaysian local commercial banks is strong enough to work independently as a slight increasing or decreasing in GDP doesn’t in show any impact towards the bank performance. Combey & Togbenou (2017) also shows insignificant result on GDP and bank performance.

5.1.3 Objective 3

One of the factor that the study believed affects the bank performance is globalisation. The third objective of this study is to investigate the impact of globalisation towards bank performance in Malaysia. Based on the first objective, the finding indicates that out of three variables, two variables seem to show significant correlation with bank performance which is economic globalisation and politic globalisation.

The findings in chapter 4 indicated that economic globalisation shows a negatively significant effect towards the bank performance. The possible reason is that the local Malaysian banks may not be as skilful as foreign banks as the foreign banks usually have more extensive choice of experts and exposure of training for employees, the superior knowledge of foreign banks and capital investment innovation places them in a superior competitive position than domestic banks. Local banks in developing country can be considered as powerless and poorly compete globally where capital account is open to liberalisation and the ownership of overseas banks in financial service sectors. Besides that, nation with open economics like Malaysia are liable to the reaction of both local and global markets, which can trigger fundamental based on unavoidable crisis. Additionally, the cross-country transmission of crisis is characteristics of open economies. At the point when a nation incorporates with the worldwide economy, it indirectly exposed to contagion impacts and also foreign shocks. According to Rijckeghem & Weder (2000), there are banking spillover when globalisation happens.

Based on the result in chapter 4, politic globalisation tend to have the same result as economic globalisation which is it gave a negative impact towards the bank performance. In the year 1995, Malaysia became member of WTO. Other than that, Malaysia had join and signed many free trade agreements such as ASEAN-China Free Trade, ASEAN Free Trade Area, ASEAN-Korea Free Trade Area, ASEAN-Australia-New Zealand, Free Trade Area, Area, ASEAN-India Free Trade Area, ASEAN-Japan Comprehensive Economic Partnership and many more. Malaysian had joined many free trade agreements; however, this gave a negative impact towards the bank performance in Malaysia. Malaysian local banks follow regulations and gave some great efforts in absorbs international standards such as Basel capital system. These standards are intended to upgrade the governance and risk hedging. Free trade agreements tend to bring the foreign banks into domestic market to boost the competition. Great competition might give a good quality to the banking industry. However, it is very important to take time and cost as a major factor to boost the competition. In simple words, local banks have to spend more time and cost in order to compete with foreign bank in domestic country. For instance, foreign bank has a better supervision and better technologies compared to local bank which triggers the domestic banks to give competition to foreign banks by updating the technologies, do some advertisements and hire some experts. By doing so, the quality of banks might increase, but the operation cost is also increases. The impact of high operating expenses will directly decrease the bank performance. Nguyen & Nguyen (2018) study in Vietnam on the impact of globalisation towards bank performance tend to have the same result as this study.

Another variable used to achieve this objective is social globalisation. The findings indicate social globalisation has no significant effects towards the bank performance. This indicates that economic growth doesn't show any positive or negative effects on the performance of local commercial banks in Malaysia. Sohaib & Ahmad (2013) shows the same insignificant results on social globalisation towards the bank performance.

5.2 Contribution of the Study

5.2.1 Academic

This study covers the impact of globalisation towards bank performance in Malaysia. It consists of eight local commercial banks for 10 years which is from the year 2008 till 2017. There are many research on globalisation towards bank performance is conducted such as in China, Pakistan, South Africa, Vietnam and many more. However, a study on globalisation using KOF index towards bank performance in Malaysia never been conducted by any researcher. Thus, this will be a great exposure and enormous value for any academician and student of business, finance, banking and economics to obtain the information and data. These data and information can also be used for future research in Malaysia regarding globalisation.

5.2.2 Industry

This study gives some idea to banking industry on how to overcome problems through globalisation. Based on the results, it seems globalisation gives a negative impact towards bank performance in Malaysia. Local commercial banks can take a serious action based on the data and information to make a future plan to boosts their performance. For instance, training their employees to improve their expertise in order to compete with foreign banks might be a good outcome in future. Thus, the data and information of this study can create awareness of Malaysian banking industry to come out with a better risk management in order to compete with foreign banks.

5.2.3 Policy maker

It is justifiable that the world is moving towards globalization in a fast track. This study demonstrates that globalization plays an important role in a nation, bank industry and to a people. A large portion of the banks are shutting the branches because of the advancement of technologies. Globalization bring an extraordinary headway towards technologies. A large portion of the bank services are in tip of our fingers. However, a few nations are absence of specialists in taking care of the services and advance technologies. It is important to keep in the mind that the headway of globalization brings the introduction of hackers globally. Thus, based on the result of the study, government can think of a strategy that gives and promote high education which principally focused on science and advance technologies. This will guarantee future people prepared to confront the worldwide rivalry.

5.3 Limitations of the Study

There are few limitations found when conducting this study. One of the limitations are data availability. Some of the data on bank performance before the year 2008 is missing. This study supposed to use 15 years of data sample, however due to limited data availability, this study only uses 10 years period which is from the year 2008 till 2017. Some banks such as Hong Leong bank and Affin bank does not have a full data on return on assets (ROA). Few of the ROA data is missing and this brought the study to choose different bank performance proxy which is return on equity (ROE).

Another limitation found in this study are time constrain. This study intended to investigate ASEAN countries as some of the countries. However, due to the limitation of time, this study focused on Malaysia as it still gave a huge outcome in this study. Plus, the data for different ASEAN country if hard to find and it consume a lot of time to find it.

5.4 Recommendations and Future Research

Based on the findings in chapter 4, this study found that economic globalisation and politic globalisation gave a negative impact towards bank performance. It is very good for local banks to get involves in competition between foreign banks as competitions pressure from foreign banks will lead to improvement in banking industry efficiency. Advance technologies and a better expertise is required to boost the competition level in order to compete with each other. However, a better technologies and expert labours create more operating cost which lead to reduction of bank performance among local banks. Thus, it is recommended for central banks to give some injection of fund to these local banks at it might reduce the operating cost of a bank. Besides that, central bank can also give some incentive training for local bankers on how to adopt new supervision and risk management. This will give the local bankers some new knowledge to handle better risk management and directly boost the bank performance. The research also recommends that government should ensure education on information technologies is provided throughout Malaysia. This is because in this globalisation era, technologies play a vital role in individual life and it is the new future. Universities with banking courses is recommended to include technologies courses in the syllabus as most of the banking system involves technologies.

As for future studies, it is recommended for researcher to include foreign banks to give out a better outcome. Besides that, for a better outcome it is recommended for globalisation variables to divide into few dimensions. For instance, KOF globalisation index provided few dimensions for economic globalisation and social globalisation. Economic growth can be divided into two sub dimensions which is the actual flows and restrictions. While social globalisation can be divided into three dimensions which is personal contact, information flows and cultural proximity. This will give a better understanding on which specific dimensions that really affects the bank performance rather than taking overall economic and social globalisation variables. To have a better understanding regarding the bank performance in Malaysia, extra study can be taken by adding more internal variables such as liquidity, network embeddedness, operating expenses management and diversification which is not present in this study. Besides that, inflation, concentration ratio and z-score can also be used for macroeconomics variables in future studies. For a better outcome it is also recommended to add more samples by extending the period and adding more countries in the study. As time goes by, this study may use a better advanced methodology to check the robustness such as replacing ROE with ROA. This study uses SPSS software to generate result, it is also recommended to use a better software in future as it might give a better outcome in future.

5.5 Concluding Remarks

This chapters summaries the findings that obtained from chapter four based on three objectives. This chapter also describe the contribution that this study made for academician, industry players and policy maker. Next, this chapters explained the limitation that found when conducting the study. Last but not least, this chapters end up with recommendations.

REFERENCES

Abiola, I., & Olausi, A. S. (2014). The Impact of Credit Management on the Commercial Banks Performance in Nigeria. *International Journal of Management and Sustainability*, 295-306.

Akhisar, I., Tunay, B., & Tunay, N. (2015). The Effects of Innovations on Bank Performance: The Case of Electronic Banking Services. *Journal of Social and Behavioral Sciences*, 369-375.

Al Manaseer, M., Al-Dahiyat, M. A., Sartawi, I., & Al-Hindawi , R. M. (2012). The Impact of Corporate Governance on the Performance of Jordanian Banks. *European Journal of Scientific Journal*, 349-359.

Alexiou, C., & Vogiazas, S. D. (2009). Determinants of bank profitability: Evidence from Greek banking sector. *Economics Annals*, 93-117.

Alper, D., & Anbar, A. (2011). Bank Specific and Macroeconomic Determinants of Commercial Bank Profitability: Empirical Evidence from Turkey. *Business and Economics Research Journal*, 139-152.

Athanasoglou, P., Brissimis, S., & Delis, M. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of International Financial Markets, Institution & Money*, 121-136.

Berger, A. N., DeYoung, R., Genay, H., & Udell, G. F. (2000). Globalisation of Financial Institution: Evidence from Cross-Border Banking Performance. *Brookings-Wharton Papers on Financial Services*, 23-158.

Boot, A. (1999). European lessons on consolidation in banking. *Journal of Banking and Finance*, 609-613.

Burhonov, J. (2006). *Islamic Banking Operations of Commercial Banks Under Islamic Banking Scheme(IBS) of Malaysia: The Performance Analysis.* Mahāwitthayālai Thammasāt: Faculty of Economics, Thammasat University, 2006.

Cetorelli, N., & Goldberg, L. (2012). Banking Globalization and Monetary Transmission. *The Journal of Finance*, 1811-1843.

Chowdhury, M. A., & Rasid, M. S. (2015). The determinants of the profitability of Islamic banks: a cross-sectional study from Asia and Africa. *International Journal of Business and Globalisation*, 375-388.

Combey, A., & Togbenou, A. (2017). The Bank Sector Performance and Macroeconomics Environment: Empirical Evidence in Togo. *International Journal of Economics and Finance* , 180-188.

Cooper, M. J., Jackson, W., & Patterson, G. A. (2003). Evidence of predictability in the cross-section of bank stock returns. *Journal of Banking & Finance*, 817-850.

Davydenko, A. (2011). Determinants of Bank Profitability in Ukraine. *Undegraduate Economic Review*, 168-182.

Detragiache, E., & Gupta, P. (2004). Foreign Banks in Emerging Market Crises: Evidence from Malaysia. *IMF Working Paper*, 01-22.

Detragiache, E., Tressel, T., & Gupta, P. (2008). Foreign Banks in Poor Countries: Theory and Evidence. *The Journal of Finance*, 2123-2160.

Dietrich, A., & Wanzenried, G. (2011). Determinants of bank profitability before and during the crisis: Evidence from Switzerland. *Journal of International Financial Markets, Institutions and Money*, 307 - 327.

Dreher, A. (2006). Does globalization affect growth? Evidence from a new index of globalization. *Applied Economics*, 1091 - 1110.

Dunning, J. H. (1977). Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach. *The International Allocation of Economic Activity*, 395-418.

Edirisuriya, P., & Gunasekarage, A. (2015). Bank diversification, performance and stock market response: Evidence from listed public banks in South Asian countries. *Journal of Asian Economics*, 69-85.

Eichengreen, B., & Gibson, H. (2001). Greek Banking at the Dawn of the New Millenial. *CEPR Discussion Paper*, 369-382.

Ekong, U. M. (2016). Globalization and the performance of commercial banks in Nigeria. *Journal of Globalization Studies*, 124-138.

Focarelli, D., & Pozzolo, A. (2005). Where Do Banks Expand Abroad? An Empirical Analysis. *The Journal of Business from University of Chicago Press*, 2435-2464.

Gâdoiu, M. (2013). Advantages and Limitations of the Financial Ratios Used in the Financial Diagnosis of the Enterprise. *Scientific Bulletin - Economics Science* , 87 - 95.

Garson, D. (2012). *Testing Statistical Assumptions.* North Carolina: Statistical Associates Publishing.

Ghosh, A. (2016). How does banking sector globalization affect banking crisis? *Journal of Financial Stabilty*, 70-82.

Hadriche, M. (2015). Banks performance determinants: Comparative analysis between conventional and Islamic banks from GCC countries. *International Journal of Economics and Finance*, 169-177.

Hailegebreal, D. (2016). Macroeconomic and Firm Specific Determinants of Profitability of Insurance Industry in Ethiopia. *Global Journal of Management and Business Research: C Finance*, 467-484.

Hair, J., Money, A., Page, M., & Samouel, P. (2007). *Research Method for Business Education + Training.* England: John Wiley and Sons.

Hassan, M., & Bashir, A.-H. (2003). Determinants of Islamic Banking Profitability. *10th ERF Annual Conference* (pp. 01-31). Morocco: ERF Paper.

Horen, N. v., & Claessens, S. (2009). Being a Foreigner Among Domestic Banks : Asset or Liability? *IMF WORKING PAPERS*, 01-35.

Kanwal, S., & Nadeem, M. (2013). The impact of macroeconomic variables on the profitability of listed commercial banks in Pakistan. *European Journal of Business and Social Sciences*, 186-201.

Kaynak, E. (1986). Globalisation of Banks: An Integrative Statement. *International Journal of Bank Marketing*, 03-08.

Khrawish, H. A. (2011). Determinants of Commercial Banks Performance: Evidence from Jordan. *International Research Journal of Finance and Economics*, 148 -159.

Mayer-Schönberger, V., & Hurley, D. (2000). Globalization of Communication. *Goverance in a Globalizing World*, 135-154.

Miller, S., & Noulas, A. (1997). Portfolio mix and large bank profitability in the USA. *Applied Economics*, 505-512.

Molyneux, P., & Iqbal, M. (2005). *Banking and Financial Systems in the Arab World.* New York: Palgrave Macmillan.

Nguyen, H. T., & Nguyen, D. T. (2018). Globalisation and Bank Performance in Vietnam. *Mlaysian Journal of Economic Studies,* 49-70.

Phua, K. L., & Soo, K. S. (2004). *What's ahead for Malaysia? : contemporary challenges and emerging trends.* Subang Jaya, Selangor : Pelanduks.

Ramadan, I. Z., Kilani, Q., & Kaddumi, T. (2011). Determinants of bank profitability: Evidence from Jordan. *International Journal of Academic Research*, 180-191.

Ramlall, I. (2009). Bank-Specific, Industry-Specific and Macroeconomic Determinants of Profitability in Taiwanese Banking System: Under Panel Data Estimation. *International Research Journal of Finance and Economics*, 160-167.

Rasiah, D. (2010). Review of Literature and Theories on Determinants of Commercial Bank Profitability. *Journal of performance Management*, 23-49.

Rijckeghem, C. V., & Weder, B. (2000). Spillovers Through Banking Centers: A Panel Data Analysis. *IMF Working Paper*, 01-38.

Robin, I., Salim, R., & Bloch, H. (2017). Cost efficiency in Bangladesh banking: does financial reform matter? *Journal of Applied Economics*, 891-904.

Said, R. M., & Tumin, M. H. (2011). Performance and Financial Ratios of Commercial Banks in Malaysia and China. *International Review of Business Research Papers*, 157-169.

Saleem, Z., & Rashid, K. (2011). Mobile Banking Adoption in Banking Sector of Pakistan. *Journal of Yasar University*, 3538-3560.

Siddik, N. A., Sun, G., Kabiraj, S., Shanmugam, J., & Yanjuan, C. (2016). Impacts of e-banking on performance of banks in a developing economy: empirical evidence from Bangladesh. *Journal of Business Economics and Management*, 1066-1080.

Smaoui, H., & Salah, I. B. (2009). Profitability of Islamic Banks in the GCC Region. *Journal of Business & Policy Research*, 16-44.

Sohaib, M., & Ahmad, H. (2013). Impact of globalisation on the banking performance of Pakistan. *International Journal of Management Sciences and Business Research*, 84-91.

Sufian, F., & Habibullah, M. S. (2012). Globalizations and bank performance in China. *Research in International Business and Finance*, 221-239.

Sufian, F., & Kamarudin, F. (2016). The Impact of Globalization on the Performance of Banks in South Africa. *Review of International Business and Strategy*, 517-542.

Sufian, F., Kamarudin, F., & Nassir, A. M. (2017). Globalisation and bank efficiency nexus: empirical evidence from the Malaysian banking sector. *An International Journal*, 1269-1290.

Thakor, A., & Besanko, D. (1987). Competitive equilibrium in the credit market under asymmetric information. *Journal of Economic Theory*, 167-182.

Tschoegl, A. (2004). Financial Crises and the Presence of Foreign Banks. *Systemic Financial Distress: Containment and Resolution*,, 197-231.

Zhang, J., Jiang, C., Qu, B., & Wang, P. (2013). Market concentration, risk-taking, and bank performance: Evidence from emerging economies. *International Review of Financial Analysis*, 149-157.

Zhang, X., & Daly, K. (2014). The Impact of Bank-Specific and Macroeconomic Factors on China's Bank Performance. *The Chinese Economy*, 5-28.

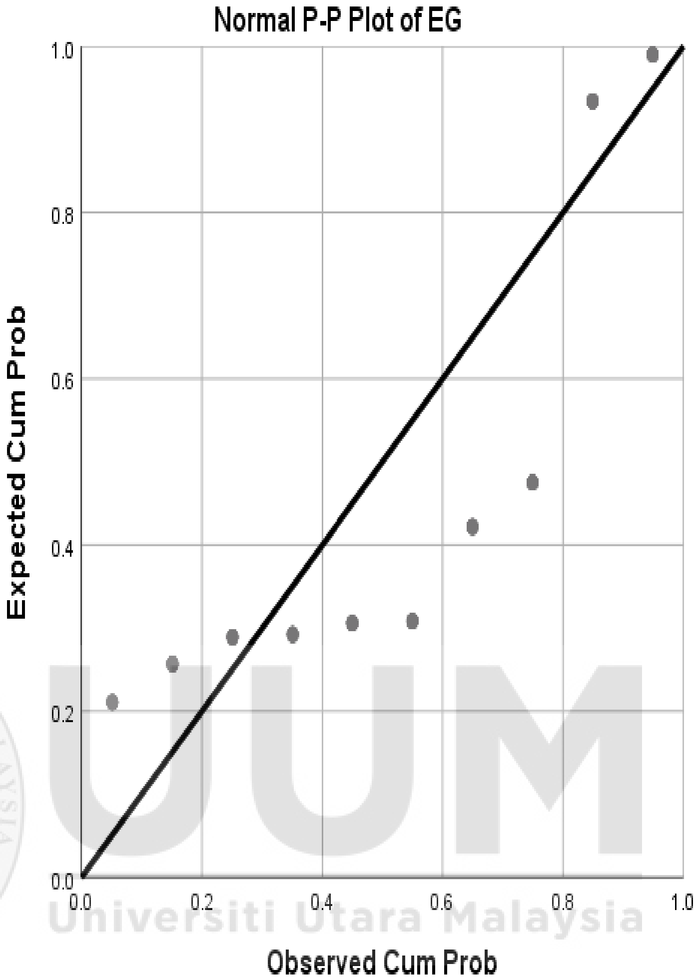
APPENDIX

Appendix 1. Indices and component weights of globalisation variables

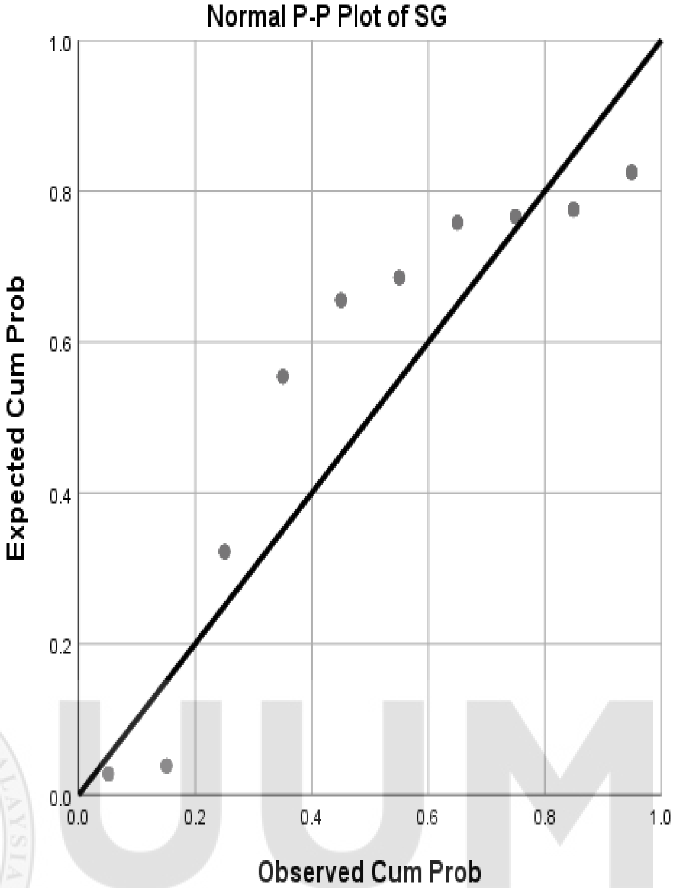
Indices and variables	Weights
A *Economic globalisation*	36%
i) Actual flows	50%
Trade (percent of GDP)	21%
Foreign direct investment, stocks (percent of GDP)	28%
Portfolio investment (percent of GDP)	24%
Income payments to foreign nationals (percent of GDP)	27%
ii) Restrictions	50%
Hidden import barriers	22%
Mean tariff rate	28%
Taxes on international trade (percent of current revenue)	26%
Capital account restrictions	24%
B *Social globalisation*	37%
i) Data on personal contact	33%
Telephone traffic	25%
Transfers (percent of GDP)	2%
International tourism	26%
Foreign population (percent of total population)	21%
International letters (per capita)	25%
ii) Data on information flows	36%
Internet users (per 1000 people)	37%
Television (per 1000 people)	39%
Trade in newspapers (percent of GDP)	25%
iii) Data on cultural proximity	32%
Number of McDonald's restaurants (per capita)	47%
Number of Ikea (per capita)	47%
Trade in books (percent of GDP)	6%
C *Political globalisation*	[27%]
Embassies in country	(25%)
Membership in international organisations	(27%)
Participation in U.N. Security Council missions	(22%)
International treaties	(26%)

Source: Dreher (2006).

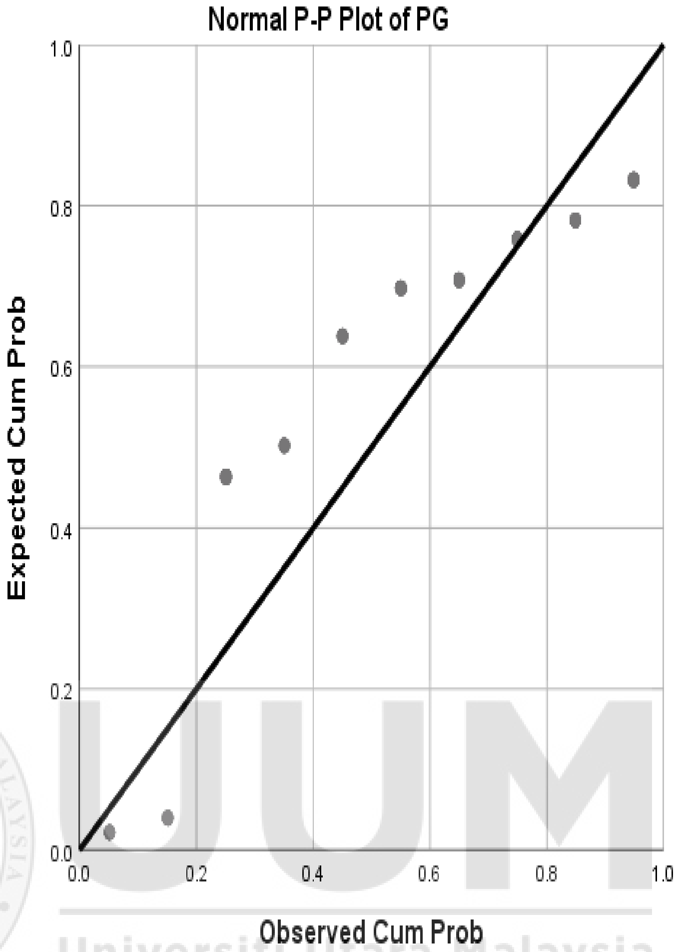
Appendix 2 – Normal P-P Plot of EG



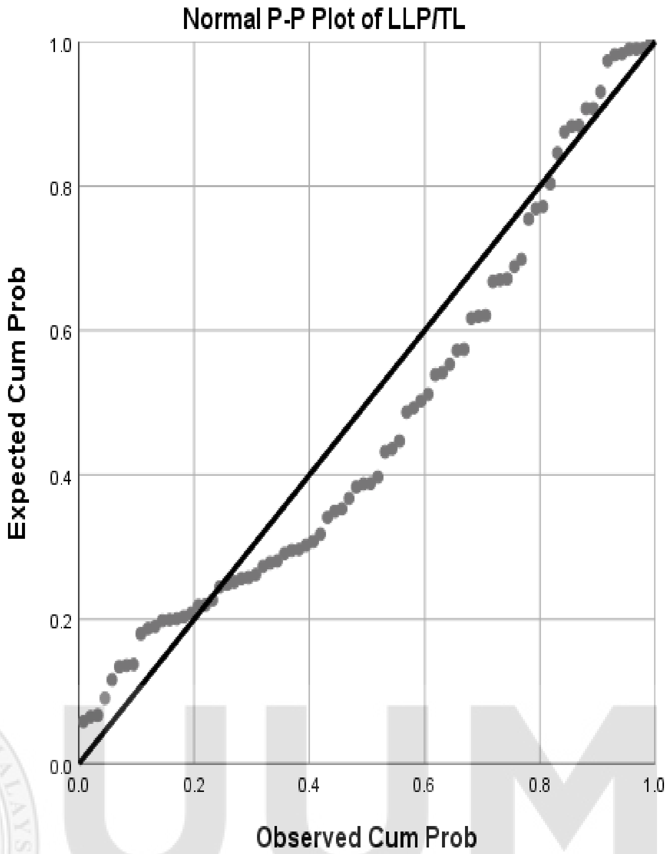
Appendix 3 – Normal P-P Plot SG



Appendix 4 – Normal P-P Plot PG



Appendix 5 – Normal P-P Plot LLP/TL



Appendix 6 – Normal P-P Plot of LTA